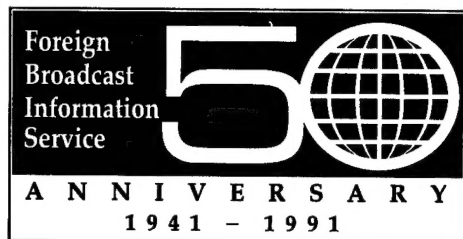
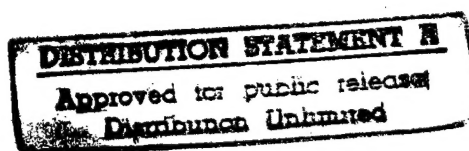


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11 DECEMBER 1991



# ***JPRS Report***



## **Soviet Union**

### ***International Affairs***

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# Soviet Union

## International Affairs

JPRS-UIA-91-029

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11 December 1991

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### Economic Aspects of Persian Gulf War

92UF0201B Moscow MIROVAYA EKONOMIKA I  
MEZHDUNARODNYYE OTNOSHENIYA in Russian  
No 4, Apr 91 (Signed to press 20 May 91) pp 81-93

[Article by Andrey Aleksandrovich Konoplyanik, candidate of economic sciences and chief specialist of the Ministry of Economics and Forecasting, under the rubric "Evaluations and Opinions": "The Conflict in the Persian Gulf: Economic Causes and Consequences"]

[Text]

#### Economic Causes of the Conflict

In June 1990 Iraq went from veiled threats to direct attacks on the United Arab Emirates (UAE) and Kuwait, declaring that they were undermining prices on the world oil market. Out of fairness I should say that there was a portion of truth in these assertions. Over a number of years OPEC had continually exceeded the production limits, the quotas, which they themselves had set jointly. The last time three countries were the main violators: the UAE (its quota for the first half of 1990 was 1.095 million barrels a day—MBD; 1 MBD is roughly equal to 50 million tons a year), Kuwait (quota of 1.5 MBD), and Saudi Arabia (quota of 5.38 MBD). The three quotas exceeded the individual quotas by 83 percent, 27 percent, and 5 percent, respectively, at the start of the first quarter and by 92 percent, 27 percent, and 8 percent at the start of the second quarter of 1990.

The UAE was the initiator of the violation of production discipline in OPEC. Having rejected a quota equal to the Kuwait quota, the UAE itself set a limit of 2 MBD and produced at that level. Kuwait also claimed a larger quota—on the order of 12 percent of the OPEC production level as opposed to the amount established for it, 6.8 percent. In 1989-early 1990 the country produced on the level of actual UAE production, declaring that it would return to its quota only together with the UAE. At the same time, in early 1990 Kuwait openly justified its quota violation by the need to keep prices from rising further, since by that time the price for the OPEC "standard" basket of oil on the spot market exceeded the base level of 18 dollars a barrel (132 dollars a ton) established by the Organization.

The position of Kuwait, which of the OPEC countries has the largest foreign network of its own oil refineries (OR) and gas stations, was clear: it was interested in relatively low prices for crude oil, which stimulate greater demand and expand its sale. Kuwait's increase in production did not affect the interests of those countries which fight for higher prices, like Algeria and Libya, since they produce light oil with a high content of gasoline distillates which are quoted on the market with a price "premium" as compared to the more sulphurous and heavy oil of Kuwait. But the higher production quotas hurt the interests of Iran and Iraq, which exported similar quality heavy grades of oil with a high sulphur content, do not have reserves of oil-producing

capacities, have an interest in maximizing day-to-day export income in order to restore economies ruined by the 8-year Iran-Iraq war, have accumulated a large foreign debt (Iraq's, for example, is 80 billion dollars), and are restricted in receiving Western credits.

After rejecting "forever" the role of regulating supplier within the OPEC framework in late 1987, Saudi Arabia then followed a policy of protecting its share on the market, maintaining production at the level of the percentage of its own quota (24.46 percent) within actual production of the Organization. So any OPEC member raising the individual quota automatically resulted in Saudi Arabia producing more.

As a result of this policy by the main OPEC members, by the end of the first 10 days of June 1990, after almost a half year of decline, prices on the spot market reached a low point: the price of Near East "Dubayy" oil, similar to Soviet export blends, f.o.b. [free on board] with delivery in a month fell to 13.25 dollars a barrel (96.30 dollars a ton)—see Figure 1.

Iraq, which believed that the prices for OPEC base oil should be set at 25 dollars a barrel (183 dollars a ton)—and Iran maintained the same opinion—asserted that the UAE and Kuwait were trying to deprive it and Iran of the income needed to restore and strengthen their postwar status as regional powers. Under the powerful pressure of Iraq and Saudi Arabia, at a meeting of the five Persian Gulf states in Jiddah, Saudi Arabia, Iraq, Kuwait, Qatar, and the UAE agreed to hold to the quotas set until the OPEC base price exceeded 18 dollars a barrel once again.

This time the declaration did not remain only on paper. Prices, which had held at 100 dollars a ton (Dubayy) for a month, began to rise. And it was at precisely this moment that Kuwait became Iraq's main object of attack. On 18 July in a letter circulated in Tunis at a meeting of the Arab League, Iraq accused Kuwait and the UAE of "direct aggression" and called upon those countries to cancel its war debts.

According to Iraq's statement, Kuwait had been "flooding" the world with cheap oil for 10 years, and part of that oil, worth 2.4 billion dollars in the period since 1980, it had supposedly simply stolen from the Iraqi Rumaila oil field (structures on the Iraqi Rumaila field and on the Kuwaiti Ritga share only 500 meters in a disputed region where up to now the border between the two countries has not been determined).

According to Iraq's minister of foreign affairs, T. Aziz, the fall in prices during the period between 1981 and 1990 all told cost Iraq 89 billion dollars. A fall of one dollar per barrel means losses of 1 billion dollars a year for Iraq. The fall in prices during the first half of 1990 "cost" Iraq 14 billion dollars of oil income.



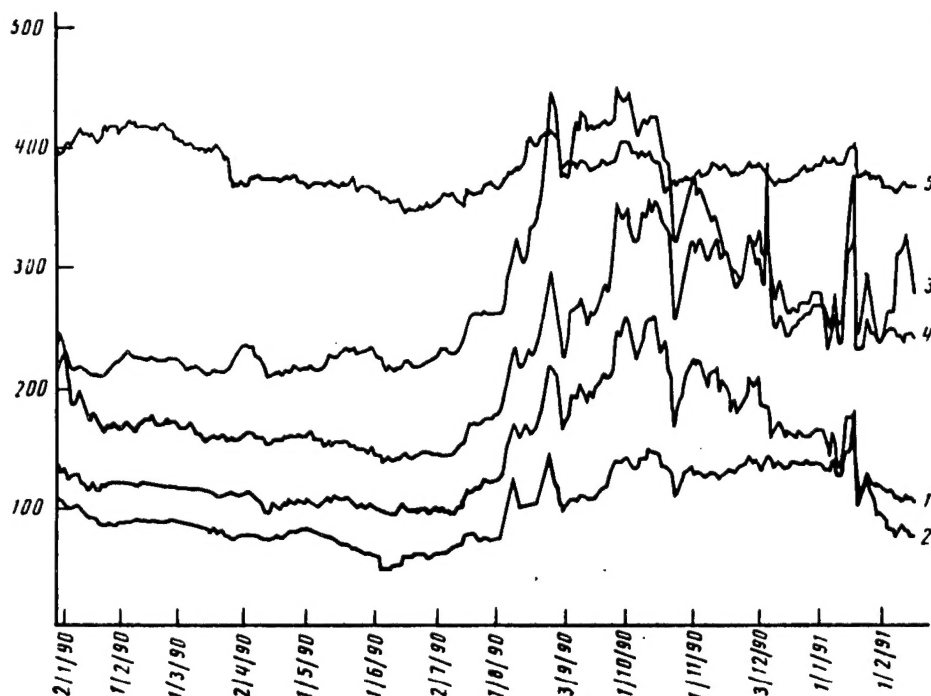


FIGURE 1. Dynamics of World Prices on Markets for Basic USSR Export Goods

**Key:**

1. Oil (Dubayy, f.o.b. with delivery in a month), dollars per ton
2. Mazut oil (heating oil with high sulphur content; cost, insurance, and freight from Northwest Europe (NWE) port with immediate delivery), dollars per ton
3. Gas oil (cost, insurance, and freight from NWE port, with immediate delivery), dollars per ton
4. Gasoline (high octane; cost, insurance, and freight from NWE port), dollars per ton
5. Gold (bullion, London, end of day), dollars per troy ounce.

In response Kuwait accused Iraq of putting its oil wells on Kuwaiti territory and called upon the Arab League to resolve the long-time problem of defining the border between the two states.

At the conference of OPEC oil ministers which opened on 25 July 1990 in Geneva, the Kuwaiti oil minister, R. S. al-Amiri, was the first to openly call Iraq's demand for a price of 25 dollars a barrel unrealistic, and this was despite the Iraqi tanks which were already concentrated on the border of his country (the information on this came on the eve of the conference). At the same time, however, the Kuwaiti minister noted that his government would agree to any decision of the OPEC conference, even a sharp rise in prices.

On 27 July OPEC set a new production quota for the Organization (22.491 MBD) by raising the UAE's quota to 1.5 MBD and the new base price for a standard basket of OPEC oil at 21 dollars a barrel (154 dollars a ton). In this way, Iraq's price demands were partially satisfied, although this rise did not compensate for the fall in real prices for oil: in order to remain unchanged in real calculation, the base price of 18 dollars a barrel agreed

upon by the OPEC countries in 1986 would have had to be 22.70 dollars a barrel (166.50 dollars a ton) by the time of the conference.

By the end of July the "war of words" in the Near East held prices at a level 4 dollars a barrel higher than in mid-June, but the traders fairly quickly lost interest in the skirmish between Iraq and Kuwait. No one believed that the matter would come to bullets: on 31 July both countries began emergency negotiations in Jiddah on oil, financial, and territorial questions. Observers suggested that these negotiations could go on several weeks, but they were certain that a compromise would be reached.

**The Market's Reaction to the Annexation of Kuwait**

Prices leaped on 1 August—after news of the severance of negotiations and unconfirmed rumors that Iraqi troops had crossed Kuwait's border. In the next 2 months prices went up almost vertically, and by the end of September had doubled as compared to the eve of the invasion. The maximum price level for "Dubayy" grade oil was reached on 28 September, 35.50 dollars a barrel (258.10 dollars a ton). If it is taken into account that back on 9 July the price of Dubayy oil was 13.30 dollars

a barrel (96.70 dollars a ton)—the second lowest price since essentially its constant rise had begun—it turns out that prices had risen by a factor of 2.7 in less than 3 months.

In October prices for Dubayy oil dropped to 31 dollars a barrel, rose to 35, fell to 23, and then rose again, this time to 31 dollars a barrel (225, 254, 167, and 225 dollars a ton, respectively). After that they began to rise persistently (see Figure 1).

The escalation of the invasion, the sequence of its events and the military-political aspects, and the reaction of the world community have been covered in the Soviet press in adequate detail. Just as much attention has been given to the second phase of the conflict, the operations of multinational forces to liberate Kuwait. Much less attention has been given to the economic consequences of the conflict for the world community. I will focus my attention on certain aspects of these consequences.

The UN Security Council's adoption on 6 August 1990 of a resolution on economic sanctions against Iraq meant a decline of 4.3 MBD offered on the world market; this was slightly less than the combined quotas of Iraq and Kuwait within the OPEC framework (4.64 MBD), which was one-fifth the Organization's production. But, according to specialists' calculations, the introduction of an embargo was not supposed to result in a worse situation with oil supplies on the world market.

First, it was believed that the oil-producing countries had enough reserve capacities to compensate for the reduced supply. Saudi Arabia could increase oil production by 1.5-2.0 MBD, the UAE—by 0.5-1.0, Venezuela—by 0.5, Nigeria—by 0.3, and Libya—by the same amount. Other oil-producing countries (Mexico, Egypt, and Norway) could provide on the order of 0.5 MBD.

Secondly, on 1 August 1990 the amount of commodity reserves of oil (state and private) accumulated in the industrially developed countries was 446 million tons (99 days' consumption or 150 days' import, while in Japan, which is the second largest importer of oil after the United States and is 99 percent dependent on foreign supplies, 142 days' consumption). Even if Iraq's and Kuwait's losses in exports were in no way compensated by the increase in production in the oil-producing countries, the commodity reserves accumulated by importers would have reached the "critical" mark—70 days' consumption—only in October 1990. Washington was prepared to put its strategic stores of oil (590 million barrels or 80 million tons) into use, and there would have been enough for 80 days' worth of U.S. imports.

Thirdly, the potential for rapid replacement of oil by other energy resources in the United States and Japan alone was estimated at 0.6 MBD.

So it was believed that the West could fairly easily compensate for the short term—to the end of the year—

for even twice as great a reduction in supply as was caused by the introduction of an embargo on buying Iraqi and Kuwaiti oil.

The oil embargo went into effect on 8 August. "A physical shortage is not yet evident," announced the chairman of the Council of Managers of the International Energy Agency (IEA), W. Engelmann, the next day. "What we are seeing on the world oil market is a typically speculative reaction to political events in the Near East region." The president of OPEC, Algerian oil minister S. Boussena, expressed a similar viewpoint.

In these conditions Saudi Arabia's demands to convene an extraordinary OPEC conference to resolve the issue of the amount certain countries of the Organization should raise production to compensate caused a negative reaction from most of its members initially. Repeated warnings from the Kingdom that it would be forced to increase production independently to stop the rise in prices were needed to convene the conference.

On 28 August the OPEC countries reached an agreement to immediately increase production: Saudi Arabia—by 2 MBD, Venezuela and the UAE—by 0.5 MBD apiece, and Nigeria—by 0.25 MBD. So the losses of Iraqi and Kuwaiti exports were three-fourths compensated through internal OPEC reserves.

The OPEC conference's decision had a very short-term lowering effect on prices—they began rising the very next day, although, as followed from most of the experts' evaluations, there was in fact no crisis with supplies on the oil market.

Obviously the "unjustifiably" high price for oil included a significant psychological component (or "war bonus"), that is, it reflected the continuing high probability of military actions erupting in the region.

In the opinion of P. Holmes, chairman of Shell Transport and Trading, the balance price for oil before the crisis—with an excess of production capacities of in the neighborhood of 4 MBD—was less than 20 dollars a barrel, and with no excess of them—25 dollars a barrel. Anything above that level was indeed a "war bonus." During the highest prices in September-October, it reached 10.50 dollars a barrel (almost 80 dollars a ton) for Dubayy oil and made up 30 percent of the price level. And customers were prepared to pay this price, which was almost a third higher, since they feared that soon the disruptions in supplies might force them to pay an even higher price.

In these conditions oil companies also preferred to store rather than put established reserves into circulation. The logic of their behavior is clear. For if prices rise when reserves are high, then where will the price vector go when the amount of reserves declines given the seasonal increase in demand? Certainly not lower.

Consequently, unlike the two previous oil crises, in the situation which took shape on the oil market after Iraq's

invasion of Kuwait, the main producers of oil represented by OPEC showed themselves to be more interested in preserving the stability of the world oil supply system than the importers. So, oil production in Saudi Arabia reached the highest indicators in 10 years: in December the country reached a level of 8.5 MBD, which exceeds the previous official estimates of the country's production potential. In the next 3 years Saudi Arabia plans to bring its production capacities up to 10 MBD.

Among the importing states the United States took the first step to stabilize the market by making the decision on 25 September to sell 5 million barrels of oil from the country's strategic reserves. Washington itself considered this more of a symbolic gesture, since the amount of oil put on the market was less than 1 percent of the strategic reserves and was equivalent to just 18 hours of the country's import volume. The real purpose of this act was to test the mechanism for using strategic reserves in a crisis situation.

Numerous experts believed that no later than mid-November the IEA would have to take certain practical steps to stabilize the market. The world oil-producing and refining industries began working almost without reserve capacities and it was expected that the strain in the market would increase in the following months. Oil refining could prove to be the main source of the strain, it was assumed.

#### Refining—The Bottleneck?

By early 1990 the world oil refining industry had become less elastic toward external disturbances than 10 years before—in the period 1979-1989 its capacities had declined by 7 percent while consumption of oil in 1989 almost returned to the 1979 level. Moreover the structure of demand for petroleum products had fundamentally changed: in 1979-1989 in the industrially developed countries the absolute scale consumption of gasoline rose to eleven-tenths its previous level and of medium distillates—to nine-eighths, while that of mazut oil fell to five-eighths its previous level. So it was anticipated that because of the Iraq-Kuwait conflict problems would more likely arise on the petroleum products market rather than on the oil market.

First, the oil which was being supplied to the market to replace the Iraqi and Kuwaiti oil was heavier in physical-chemical make-up (the replacement oil had an average density of 0.8762 tons per cubic meter as compared to 0.8628 tons per cubic meter for the oil being replaced); consequently, of itself it contained a smaller quantity of the light fractions which were in great demand. Mazut oil, whose expanded production might not find a consumer and was disadvantageous for the refinery owners for price considerations as well, is the main product of refining this oil.

Secondly, deliveries of petroleum products from the Persian Gulf region, for the most part light motor fuel, were declining. Exports of petroleum products from

Kuwait were lost (0.75 MBD) and their export from other countries which partially reoriented to supplying liquid fuel to the armed forces concentrated in the conflict region declined. The total decline in exports of petroleum products from the Persian Gulf was estimated at roughly 1 MBD and continued to grow as the military presence in the region increased.

Thirdly, the reserve refining capacities which exist in the world (in Japan and South Europe, for example) are much less modern and hence given other equal conditions provide less thorough refining of oil than the capacities taken out of economic circulation in the Persian Gulf region.

Thus, as a result of the Iraq-Kuwait crisis demand for light petroleum products expanded, while the potential to satisfy it was narrowed.

In late September (in the period of highest prices) on the West European market the price of gasoline was at 450 dollars a ton, of naphtha (a raw material for the chemical industry)—at 400, of gas oil—at 350, and of mazut—at 145 dollars a ton. The price of jet fuel jumped highest of all in connection with the sharp rise in demand—to 500 dollars a ton. In this way, in the 2 months since Iraq had invaded Kuwait, the price of oil rose by 130 dollars per ton, of gasoline—by 180, of gas oil—by 165, of naphtha—by 230, and of jet fuel—by 300 dollars, but of mazut—by only 65 dollars per ton. But later even the price dynamics changed and price ratios were disrupted (see Figure 1).

Because of the disproportional change in prices for raw materials and certain types of finished output, the oil refining companies began to suffer losses.<sup>1</sup> Data on the financial reports for the third quarter of 1990 published by a number of large oil corporations attest to this.

For such companies as Mobil, Chevron, and Shell, income for the third quarter fell, since they did not manage a complete transfer of the higher oil prices to the petroleum products consumers. For example, on the American market wholesale prices of heating oil products rose by 90 percent of the increase in the price of oil, while for gasoline it was 60 percent, and at the pumps of Texaco Company stations the increase was less than half the rise in the price of oil.

It was predicted that the oil refining companies might lose even more when oil to compensate for the Iraqi and Kuwaiti oil began to arrive for refining. This replacement oil is not so much cheaper as of worse quality. In addition, more of this oil is required to obtain the amount of light fractions which consumers need, as compared to the Iraqi or Kuwaiti oil it replaces.

According to some estimates, to obtain the very same quantity of light and medium-density fractions (jet fuel, naphtha, and gasoline), a typical Japanese refinery, for example, must refine 50 percent more oil than a refinery located in the Persian Gulf region. This creates a number of problems for the Japanese refinery related to storing

the high sulphur-content mazut. Ecological standards restrict its burning on the country's territory, and a government license is needed to export it. Resolving this set of problems presupposes additional expenditures of time and investments.

In this way, in addition to the "war bonus," structural disproportions on the petroleum products market were also the basis for preserving high oil prices in September-October 1990. It was predicted that shutting down some of the refining capacities to restructure their production profiles might temporarily intensify the destabilizing trends on the oil market and lead to another jump in prices. That did not happen, however.

#### **The Behavior of the Market on the Eve and During the War for the Liberation of Kuwait**

The more than 2.5-fold increase in the world price of oil in July-September 1990 was followed by a decline in price by the end of the year. The following factors encouraged this.

1. Oil production in the OPEC countries increased substantially (from 19.57 MBD in August to 23.8 MBD in December), which almost completely compensated for the decline in supply as a result of suspension of Iraqi and Kuwaiti supplies. In 1990 oil production by the OPEC countries reached 23.15 MBD or the highest level in 10 years.
2. The supply of oil by producing countries which were not members of OPEC (other than the United States and the USSR) increased.
3. Consumption of liquid fuel by the industrially developed countries declined as a result of both higher prices and the slowing down of economic activism (in the fourth quarter of 1990 consumption was 2 percent lower than in this same period the previous year).
4. The commodity reserves of oil built up in importing countries were maintained at the highest level in 9 years (they totaled 469 million tons on 1 January 1991).
5. Commodity reserves in oil-producing countries increased to 15 million tons of unsold oil, which exceeds the regular level by 50 percent.
6. The IEA adopted a decision on the mechanism for using state reserves of liquid fuel and on measures to reduce demand for oil. When a short supply appeared, the IEA countries were supposed to begin delivering 2.0 MBD of their state reserves to the market every day. Demand for oil in the IEA countries was to be reduced by 0.4 MBD by reducing its consumption and by another 0.1 MBD—by replacing it, including through higher production of electricity. In this way, the total reduction in the IEA countries' import demand for oil was supposed to be 2.5 MBD in accordance with the plan.
7. The December 1990 OPEC conference adopted the decision to resume regulating oil production right after the crisis was eliminated in the Persian Gulf region.

In these conditions even the risk of the threat of the start of military actions could not keep prices high, and in October-December 1990 they declined to less than two-thirds their former level. Only on the very eve of the day the ultimatum presented to Iraq ran out did the stock

exchange uproar add 3-5 dollars to the price of a barrel. Many experts assumed that if after military actions started Iraq could hit the oil fields of Saudi Arabia (in December 1990 the Kingdom supplied 36 percent of total OPEC production), it would cause prices to pass 50 dollars, and according to some estimates, even up to 80 dollars a barrel, although, as others believed, even in this situation the oil reserves built up in the world, given the balance of supply and demand which had become established, would be sufficient to keep prices from rising sharply. Experts assumed that in case of war, even after stopping production in the Neutral Zone bordering Kuwait, the Kingdom would be able to produce on the order of 8.3 MBD assuming international forces maintained superiority in the air.

The news of the start of military actions to liberate Kuwait immediately raised stock exchange quotes for oil by roughly 5 dollars a barrel. But the first reports on the results of the mass bombing of Iraq's strategic installations, in particular the destruction of "almost all" of its air and missile forces, just as quickly upset prices, and they fell by 8-10 dollars or more a barrel, since it became obvious that Saudi Arabia's oil fields, the tanker fleet which was in the Persian Gulf region, and all the rest of the oil-exporting infrastructure would be preserved virtually untouched.

On 3 March the war to liberate Kuwait ended in the victory of the international forces. In this connection, one could not expect any rise in prices on the world oil market. Inasmuch as a further reduction in demand for oil (by 5 percent in the second quarter of 1991) was forecast, an oversupply could be expected, despite OPEC's announcement that it would return to a system of restricted production within its framework after the military actions ended. Given this development of events, prices of Dubai oil might fall to 8-12 dollars a barrel (60-90 dollars a ton) and only return to the 16-20 dollar a barrel level (115-145 dollars a ton) after some time.

#### **Economic Consequences of the Conflict for the USSR**

The sharp rise in prices on the world oil market which followed Iraq's invasion of Kuwait served as the basis for numerous assertions that as a result of the conflict in the Persian Gulf the Soviet Union would receive a tangible economic advantage, since oil, petroleum products, and a number of other goods which clearly react to higher oil prices (gas, gold, and others) were the foundation of its exports.

Thus, Professor M. Goldman from the Center for Russian Studies at Harvard University and the newspaper BOSTON GLOBE believed that raising world oil prices by 20 percent could increase the Soviet Union's income in hard currency by 5-6 billion dollars a year (I will note that in the period of highest prices they were exactly twice as high as on the eve of the invasion—judging from this logic and assuming that the price level reached was



maintained, an increase in USSR hard currency revenues of some 25-30 billion dollars a year could be expected. The WALL STREET JOURNAL assumed that the influx of foreign currency into the Soviet treasury would increase by 7.5-10 billion dollars a year through the price factor alone. In the opinion of the director of the consulting firm Plan Econ, Ya. Vanush, cited in the Soviet press, the USSR would receive an additional 1 billion dollars for each dollar increase in the price of oil (I will note that in August-September 1990 alone prices rose by 18 dollars, that is, additional revenues amounting to 18 billion dollars could be expected), and so on.

A few Soviet authors who wrote on the subject of the Iraq-Kuwait crisis cited these data in their articles and as a rule did not subject them to critical interpretation. Inasmuch as the official data on the economic consequences of the crisis for the USSR were not published, the reader gradually became convinced of a truly significant benefit to the USSR as a result of the crisis situation in the Persian Gulf. I will try to dispel these illusions.

This task seems all the more pressing since at times major political conclusions which have long-term consequences both for our country and for the broader international community are based on this wrong or narrowly calculated economic foundation. For example, the conclusion of the European Community special expert group for the extraordinary conference of heads of states and governments of the Community's countries (Rome, 27-28 October 1990) that the USSR received additional export receipts as a result of the sharp rise in oil prices reduces the moral responsibility of the world community in the face of the economic difficulties being experienced by the Soviet Union.

Let us try to figure this out. In 1989, which preceded the crisis in the Persian Gulf, oil exports totaled 127.3 million tons worth 13.1 billion rubles [R] and exports of petroleum products were 57.4 million tons worth R5.6 billion (19.1 percent and 8.2 percent, respectively, of the country's total exports). The USSR receives half of all freely convertible currency (FCC) from the sale of oil and petroleum products, while exports of only four commodities—liquid fuel, natural gas, gold, and weapons—account for four-fifths of the country's hard currency receipts. The Soviet Union could obviously receive additional, as a result of the conflict, export income only in the markets of the first three commodities.

Until the end of 1990 the higher prices on the world oil market affected change in the USSR's export receipts only through trade with capitalist and developing states. This rise in prices had no effect on trade with the CEMA countries: the so-called "Moscow (in some sources, Bucharest) formula," under which the yearly level of export prices for Soviet energy resources was defined as the average for the previous 5 years of the average annual prices of the world market, continued to operate in foreign trade accounts among the socialist countries. In accordance with this formula, the leap in oil prices in 1990 caused by the Iraq-Kuwait crisis would have been taken

into account (and then only partially, by roughly one-tenth of its amount) only when defining the price levels of the next year, that is, 1991. In this way, this increase in prices in 1990 did not extend to 65 percent of Soviet oil exports (82.6 million tons in 1989) and to 22 percent of Soviet petroleum product exports (12.6 million tons in 1989). But then it would have been fully rather than partially considered in the export price of Soviet liquid fuel starting on 1 January 1991, since from that moment the operation of the "Moscow formula" ceased in connection with the transfer of foreign trade accounts with CEMA countries to world prices and freely convertible currency.

Let us take the average prices during January-July 1990 on the markets of these export commodities as the base point and see what additional incomes the country could have obtained through a change in the world market conditions in August-December, given the same volume of corresponding export deliveries as in the previous year.

The average price of Dubayy oil for January-July was 15.39 dollars a barrel (111.90 dollars a ton) and 26.99 dollars a barrel (196.20 dollars a ton) for August-December. This means that assuming Soviet exports of oil to the capitalist countries remained at the previous year's level (44.6 million tons), the USSR could have received additional earnings on the order of 1.5 billion dollars during these 5 months.

Four-fifths of Soviet exports of petroleum products are mazut heating oil and diesel fuel (23.2 and 22.3 million tons, respectively, in 1989). Gasoline is slightly more than one-tenth (6.7 million tons). Half of the rest is made up of kerosene and jet fuel (2.1 million tons) and naval mazut oil (1.6 million tons). The average prices for the USSR's main export petroleum products (mazut oil, diesel fuel, and gasoline) during August-December 1990 were 127.90, 288.10, and 349.70 dollars a ton as opposed to, respectively, 79.00, 163.60, and 225.10 dollars a ton in January-July. Making the same assumption for exports of petroleum products as for crude oil, we see that in August-December 1990 the USSR could have had additional earnings on the order of 1.5 billion dollars on the petroleum products market.

In this way, through the rise in prices for oil and petroleum products, in 1990 the Soviet Union could have gotten additional export earnings of up to 3 billion dollars. But did it?

Alas, no. And the point is not even that only part of the oil sold to the capitalist countries is sold strictly for freely convertible currency (65 percent in 1989 and 74 percent in 1990) while different forms of currency clearing account for the rest.

The main reason is the reduction in export deliveries of oil and petroleum products because of the serious situation which had taken shape in the oil-producing countries. According to Goskomstat [State Committee for Statistics] estimates, production of oil with condensate totaled 570 million tons in 1990, that is, it declined by 37 million tons or 6 percent as compared to 1989; export of oil amounted to 108 million tons, that is, it declined by 19 million tons or by 15 percent; export of gasoline declined by 3.0 million

tons or by 45 percent; export of diesel fuel declined by 3.0 million tons or by 13 percent; and export of mazut heating oil declined by 4.6 million tons or by 20 percent. As a result the export of oil and petroleum products in 1990 (152 million tons) was 18 percent lower than the level of the previous year. And, 90 percent of the reduction in exports of oil and 40 percent of the decline in exports of petroleum products occurred in the second half of 1990.

The total actual amount of the country's additional export revenues in 1990 took shape under the impact of two factors: price and volume. Bearing in mind that only 44 percent of the exported oil, 68 percent of the gasoline, 75 percent of the diesel fuel, and 78 percent of the mazut oil were exported to capitalist countries in 1990, we find the following values of these factors (in millions of dollars).

**Table 1. Factors Affecting Additional USSR Export Revenues in 1990, in millions of dollars**

Factors	Export Commodities				
	Oil	Gasoline	Diesel Fuel	Mazut Oil	Overall
Price	+1423	+49	+724	+308	+2504
Volume	-1223	-297	+234	-191	-1477
Overall	+200	-248	+958	+117	+1027

Thus, the total actual increase in the USSR's additional export revenues from oil and petroleum products in 1990 was slightly more than 1 billion dollars, or less than one-third the potential increase figured above.

Moreover, for the first time in the postwar period, the Soviet Union entered the oil market as a buyer. According to unofficial estimates, in the third quarter of 1990 the USSR bought 400,000-500,000 tons of gasoline, whose price in early October (450 dollars a ton) was 1.8 times the level in early August. This deal cost the country roughly 150-200 million dollars. In this way, up to one-fifth the country's actual additional export incomes caused by the rise in the price of oil went to finance imports of petroleum products. Indeed paradoxes worthy of an "crooked mirrors economy."

The sale of natural gas could have brought the Soviet Union additional revenues, since the price of the latter is linked, among other things, with the basket of prices of oil and petroleum products. But the linkage formula operated with a 3-6 month lag, and in addition the change in oil prices is only partially transferred to the price of gas. So in 1990 the additional export earnings from gas resulting from the change in the oil market conditions were very insignificant (if they existed at all).

The stock market panic caused by Iraq's invasion of Kuwait resulted in the price of gold rising by roughly 30 dollars a troy ounce (see Figure 1). However, the average price of gold in August-December was only 2.80 dollars a troy ounce more, or less than 1 percent higher, than the average price in January-July. In this way, given the same volume of sale of gold (according to Western estimates, 296 tons in 1989), one could speak of only roughly 10 million dollars in additional income. In fact the amount of the country's additional export revenue from the sale of gold was obviously much higher, not because of the market condition-shaping role of the crisis in the Persian Gulf, but because of the sharp, according to the reports of the information agencies, rise in the sale of Soviet gold in 1990.

So the USSR's additional "economic dividends" through the rise in prices on the markets of the country's basic export commodities in 1990 was slightly more than 1 billion dollars, and certainly does not run into several, let alone tens of, billions.

And what were the country's losses caused by the Iraq-Kuwait conflict?

There is no unanimous opinion on this score. Different Soviet specialists cite different assessments (up to a 7-fold gap) of the economic consequences of terminating trade-economic relations with both states in accordance with the UN decision (in billions of dollars).

**Table 2. Different Authors' Estimates of USSR Losses Because of Iraq-Kuwait Conflict, in billions of dollars**

Source	Estimated for the Year	Estimated for August-December 1990
K. Katushev (author's calculation)	1.9-2.1	0.8-0.9
A. Belonogov	—	0.915
A. Kondakov	—	about 1.0
Yu. Savinov and A. Prokhorenko	—	1.3
Author's Estimate	—	1.7-1.8
I. Mordvinov	6-7(?)	2.5-2.9(?)
V. Isayev (author's calculation)	12-17	5-7

Compiled from: SOVETSKAYA ROSSIYA, 26 August 1990, p 5; IZVESTIYA, 31 August 1990, p 1; NOVOYE VREMYA, No 42, 12 October 1990, pp 30-31; EKONOMIKA I ZHIZN, No 38, September 1990, p 21; NTR: TRIBUNA, No 15-16, 1990, pp 12-13; KOMMER-SANT, 3 September 1990, p 23; TRUD, 23 October 1990, p 3; DELOVOY MIR, 19 January 1991, p 2.

Let us try to reach a more or less unequivocal evaluation of the direct damages, calculating each item individually.

According to data of SIPRI [expansion unknown], in 1980-1989 the USSR delivered 13.25 billion dollars

worth of weapons to Baghdad. Taking into account that in 1980-1982, when Iraq attacked Iran and waged war on its territory, deliveries were suspended, the average annual volume of sale of Soviet weapons to Baghdad in this period can be evaluated at 1.7-1.9 billion dollars, given the very large spread of existing evaluations (M. Goldman estimates sales in 1989 at 1.5 billion dollars, while Yu. Savinov and A. Prokhorenko write about 3.0 billion dollars). In this way, by terminating deliveries of weapons to Baghdad in August, the USSR received 0.7-0.8 billion dollars less (0.6 according to Goldman; 1.25 according to Savinov and Prokhorenko) before the end of 1990.

Different official publications of Goskomstat estimate the volume of Soviet "civilian" exports to Iraq in 1989 at from R107.90 to 255.40 million. Thus, for this item the USSR's direct losses until the end of 1990 could be estimated at from R45 to 105 million. Transposed to the official rate (1 dollar equals R0.60), this sum amounts to 75-175 million dollars, and taking into account the three-fold devaluation of the ruble and the introduction of the commercial rate starting on 1 November (1 dollar equals R1.80), it is 55-130 million dollars.

Goskomstat estimated Soviet imports from Iraq in 1989 at R975.90 million, 99.6 percent of which consisted of deliveries of oil to pay for services on special cooperation (11.9 million tons at a price of R81.50 a ton). All the oil imported from Iraq was completely reexported to India, Bulgaria, Romania, and Yugoslavia.

Taking into account the problems of domestic oil production, Soyuznefteekspost proved to be unable to fulfill contract obligations for deliveries to the East European countries. But this reduction apparently did not apply to India. (According to 1990 results, the export of oil to the CEMA countries declined by 24 million tons or by 30 percent as compared to 1989, while exports to the capitalist countries rose by almost 6 million tons or by 13 percent). In accordance with the Soviet-Indian trade agreement, the USSR was supposed to deliver 4.5 million tons of oil from Iraq's Basrah field in the period from April 1990 to March 1991. As early as August the official representative of the Soviet embassy in New Delhi announced that the USSR would supply these quantities to India regardless of the development of events in the Near East. "Where we get it is our own business. But India will receive this oil, and 2.8 million tons of petroleum products," stated embassy economic advisor A. Granovskiy, according to the report of the Reuters agency. It could only be "gotten" from the domestic market, either by reducing deliveries to the CEMA countries even more (at that time still on transferable rubles) or to the Western countries (but already primarily for FCC), or by buying these quantities on the world market. In any case, in my opinion, losses from the lack of Iraqi oil should be figured according to the

encompassing variant, that is, at world market prices. Making the same assumptions that were made in regard to the export of Soviet oil, compensation for the reexport of Iraqi oil might have cost our country 975 million dollars up to the end of 1990.

Soviet exports to Kuwait in 1989 totaled R117.40 million with almost no imports. The loss of this market was equivalent to a USSR loss for August-December 1989 on the order of 80 million dollars calculated at the official rate and 60 million dollars taking into account the introduction of the commercial rate of the ruble on 1 November.

However, the USSR could be harmed as much, if not more, from terminating financial-economic cooperation with Kuwait, which was set to start in 1987 when the Kuwaiti banks were participating in granting the Soviet Union a loan of 150 million dollars. In May 1990 an agreement was signed where the Kuwaiti Foreign Trade, Construction, and Investment Company (KFTCIC) offered Vneshekonombank a loan of 300 million dollars for 7 years. At the time Iraq invaded Kuwait, 115 million dollars had not been received and was put in doubt for the future. However, the legitimate government of Kuwait in exile maintained control over national financial resources (Kuwait's deposits in foreign banks total more than 100 billion dollars) and announced that after it had set up operations under the new conditions the country's banking system would fulfill all obligations abroad, including those for interbank deals.

In late November 1990 the USSR received a proposal from the Council of Cooperation of the six states of the Persian Gulf to offer our country loans and economic aid worth up to 4 billion dollars, with the possible contribution of the Kuwaiti government-in-exile estimated at 550 million dollars.

Moreover, Kuwait offered another loan to the Soviet Union. On 22 January 1991 Vneshekonombank and the KFTCIC signed an agreement, this time for 1 billion dollars for a term of 7 years "under very beneficial conditions for the USSR."

In this way, in 1990 the total amount of money the USSR did not receive as a result of the Iraq-Kuwait conflict was on the order of 1.9 billion dollars (from 1.8 to 2.4 billion dollars if the alternative data on the USSR's military supplies to Iraq are taken as the basis). In reality this sum will be higher if expenditures to evacuate Soviet citizens from both countries, the loss of property belonging to our country, and other unaccounted expenditures are added here.

Consequently, the USSR incurred direct economic losses because of the crisis in the Persian Gulf, since the additional expenditures of at least 840-900 million dollars surpassed the total amount of additional money received by the country (See Table 3).

**Table 3. Balance of Direct Foreign Trade Losses and Gains for the USSR Economy in 1990 as a Result of the Iraq-Kuwait Conflict**

	Approximate Estimated Amount, in billions of dollars	
	Gains	Losses*
Subheads of Losses and Gains		
Increase in Prices on Markets for Soviet Export Commodities:		
Oil	0.20	
Petroleum Products	0.83	
Gas	Insignificant	
Gold	0.01	
Total Gains	1.04	
Loss of Soviet Export Markets as a Result of UN Economic Sanctions:		
Sale of weapons to Iraq		0.75
		(from 0.6 to 1.25)**
Civilian Exports to Iraq		0.09-0.13
Reexport of Iraqi Oil		0.98
Trade with Kuwait		0.06-0.08
Overall Losses		1.88-1.94
		(from 1.79 to 2.38)**
Balance		0.84-0.90

\*The first figure is by converting rubles into dollars at the commercial rate, and the second, by the official rate. \*\*Taking into account the alternative estimates of weapons sales to Iraq.

Loans received from Kuwait and other Arab states opposing Iraq can only smooth over for a time the critical nature of our country's financial problems intensified by this conflict. So we cannot speak of any, let alone a multibillion dollar, rain of oil dollars shed on us because of the conflict in the Persian Gulf.

#### Footnote

1. The oil refinery owners' "margin" equals the difference between the overall price of the petroleum products obtained from a unit of refined oil and the price of this oil supplied to the refinery (minus, naturally, the refining costs). The increase in the structure of refining of the

proportion of mazut oil given other equal conditions reduces the cost of a unit of refined petroleum products, since mazut oil is as a rule sold at "dumping" prices—lower than the price of oil. So, in August-October 1990 the price of mazut oil on the West European market was only 55-60 percent of the price of Dubayy oil (see Figure 1). Therefore, the higher proportion of mazut oil in the structure of refining along with the lower growth in its price as compared to the prices of oil and other petroleum products caused the oil refiners' "margin" to change to a minus sign.

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**Effect of 'Shock Therapy' on Former Bloc Countries Discussed***92UF0251A Moscow PRAVDA in Russian 21 Nov 91  
p 5*

[Roundup of reports on "shock therapy" in former bloc countries by Andrey Krushinskiy, Vladimir Gerasimov, and Leonid Kuznetsov, introduced by Mikhail Tretyakov, under the general heading: "The Thorny Path From Socialism to Capitalism. Surprises of 'Shock Therapy'"]

[Text] *As has already been reported in the press, on 27-28 November in Moscow there is to be a meeting between Russian President B. Yeltsin and a group of eminent reformers who have participated in the implementation of radical economic transformations in various countries. Participating in it, apparently, will be specialists from Czechoslovakia, Bulgaria, Hungary, and other former socialist countries, taking into account the fact that a personal invitation from the Russian leader has already been received by L. Balcerowicz, former Polish vice premier and finance minister, who is known among our neighbors across the Bug as the author and main implementer of the concept of "shock therapy" in the economy.*

There is no reason to doubt the expediency of this meeting although, it is true its effect could have been much greater if it had taken place before the announcement of the decision to conduct a radical reform in Russia. For it is no secret that in the post-communist countries the application of "shock therapy" frequently encounters serious difficulties and its path is strewn not only with roses but also with thorns. And our friends could have given us suggestions and pointed out the reefs that threaten us in the stormy sea of economic restructuring. The more so—as practice shows us, and specialists do not conceal this—since the scenarios for "shock therapy" were developed with the close participation of American specialists, and in principle it is the same for all countries on the path from socialism to capitalism.

It seems that our readers would not be uninterested in learning how the population is receiving the results of the radical economic experiments in the former CEMA countries, what problems are arising for them, and how they are being overcome. We asked our correspondents in Prague and Sofia and also editorial workers who worked for a long time in Budapest and Warsaw to discuss this.

[following paragraph is boxed] **WHAT AWAITS US: Internal convertibility of national currency. Stores filled with imported goods. A decline of production. Mass unemployment. Lowering of the standard of living.**[end box]

Let us begin, please, with Poland—the country that was the first testing ground for "shock therapy." In a couple of words, the essence of the Polish version of this concept could be reduced to holding back inflation and accelerating the economy's transition to a market basis. And at that time, in the fall of 1989, the authors of the reform

were not stingy with their promises, suggesting that people tighten their belts for a while and after six months or a year, in their words, stability and an era of prosperity should begin.

Yes, they did indeed have to tighten their belts, but not for six months to a year but up to the present time, and nobody on the Vistula will hazard a guess as to when they may loosen them again. Although one must give the fathers of Polish "shock therapy" their due. As a result of the liberalization of prices and the adoption of a number of energetic measures in the area of foreign trade, the shelves of the stores have been filled with various kinds of goods and food products in brightly colored packaging. And they are showing us the way it really is in reports on Central Television from Poland when we see the bright windows of the Warsaw stores. True, for some reason they say nothing about the fact that three-fourths of the goods displayed here are foreign-made, and it is as though in passing that they mention that far from every Pole can afford them.

"Shock therapy" cuts local industry and agriculture off at the root. According to estimates by Polish specialists, the volume of industrial production last year dropped by 30 percent, and this year the decline will amount to another 20 percent. Because of the high prices of domestic agricultural equipment and the low customs duties on imported food products, the profitability of peasant farms is dropping sharply. The army of the unemployed of our neighbors across the Bug is approaching 2 million people, which is more than one-tenth of the number who are employed. New price hikes are announced regularly, which, in turn, lead to a reduction in the standard of living and evoke a responsive reaction from the workers—strikes and demands for higher wages.

The indexation of the population's incomes, with a coefficient of 0.6 of the price increase, was not justified. The Poles' incomes, including stipends for dependents, never kept up with the growth in prices. Now the indexation has been reduced merely to a certain restriction of the growth of the wage fund and the establishment of a lower level of remuneration for labor. At the same time the threat of bankruptcy has been hanging over the heads of thousands of large and medium-sized enterprises. Privatization of industry is producing serious interruptions. In the words of republic President Lech Walesa, the West, by pushing Poland to radical socioeconomic reforms, deceived it and did not come up with the promised aid.

All these are facts which one cannot but take into account. The Poles convincingly expressed their attitude toward shock therapy during the course of recent parliamentary elections in which pro-president and pro-government parties and the trade union Solidarity suffered serious defeats, and the left-wing forces came out in second place, having given up only one-tenth of the votes to the leader. According to the estimates of the eminent Polish politician K. Modzelewski, who can hardly be

accused of being sympathetic to communists, the reason for the defeat lies in the economic policy, which the last two Polish Governments have conducted under emblem of "Solidarity." He thinks that its continuation would have verged on political adventurism.

[signed] Mikhail Tretyakov.

#### The Actors Are Not To Blame

*"The question is how tightly we intend to pull the people's belt. In my view, it has already been tightened to the hilt before the last one. The people would agree to pull it tighter, but only if they were convinced that this would do some good." The author of these words Mikhal Kovac, a deputy to the Federal Assembly from the Movement for a Democratic Slovakia and a worker, an electrician by trade, judging from everything, is not hoping for anything good himself. It is no accident that one of the culminating episodes of the recently completed 18th parliamentary session was his speech containing the demand for the resignation of the leading "script writers" of the Czechoslovak economic reform—Deputy Premier Minister of Finance [title as published] V. Klaus and Minister of Economy V. Dlouhy.*

...The Czechoslovak parliament approved the scenario for the radical economic reform last autumn, and when summing up the results of the first year one cannot but note a number of good signs. Never in the past have the eyes been able to feast on such a variety of packaging in the stores.

Another attractive aspect which is organically linked to the first is the increased reliability of the Czechoslovak koruna as a means of payment. The times have passed when the resourceful currency speculator could earn a million in one week: The difference between the official and "black-market" exchange rates of the koruna now does not exceed a couple of percentage points and on some days they are the same. Hence, incidentally, the diversity of goods: The principle of "internal convertibility" of national moneys introduced here gave state enterprises and private entrepreneurs the right to unlimited exchange of the koruna for any currency in paying for imported goods and services.

There has also been progress in privatization. Because of the basic preparation, which was reflected in the development of the corresponding law and in the creation of specialized republic (Czech and Slovak) privatization ministries and a network of regional privatization commissions throughout the country, a "small-scale privatization" has been completed, which encompasses the spheres of trade, public catering, and consumer services. Next will come "large-scale privatization," which will affect all industry.

Finally, for the second year in a row, the state has not simply a budget without a deficit but one with profit.

[following paragraph is boxed]Czechoslovakia: "Scenario of economic reform harmed by politicization"[end box]

But each of the aforementioned points has its downside as well. "Our life is getting worse just as catastrophically as yours is," an acquaintance of mine from Prague assured me a couple of days ago. "We should have your stores," I replied. "Your citizens have a lot of money but, since the stores are empty, they cannot buy anything," he insisted. "Our stores are full but we have no money and therefore we cannot buy anything. What is the difference?"

The equalization of the official and "black market" exchange rates for the koruna entails its devaluation, say opponents of the reform, as a result of which the national income has started to be pumped abroad through official channels, mainly to the neighboring FRG.

Opponents say an incorrect course was taken in privatization: Instead of creating a strong class of domestic entrepreneurs and giving the labor collectives a chance at the right to ownership, a channel was formed for laundering "dirty money" and selling off national property to questionable dealers from abroad.

Many economists refute the arguments about the profit in the budget with a counterattack: "Is this 'profitability' normal if at the same time the production volume in Czechoslovakia has dropped by 30 percent and more than 80 percent of the state enterprises are insolvent?"

At a recent representative conference of economists with international participation there was a predominance of critical voices: The fathers of the Czechoslovak reform were reproached for being inclined toward the "utopian capitalism" of the past century, and a dangerous striving for "ideologization of economics," and for underestimating the danger of the social shockwaves that threaten to completely undermine the reform as such. Klaus's cheerful statements to the effect that the reform is advancing successfully have become the subject of bitter jokes from journalists who relate stories in the spirit of the old anecdote: "The operation was a success but the patient died."

The authors of the "script" (in complicity with the "producer-directors") assert not without reason that the transition from directive planning to a market inevitably involves belt tightening and that they anticipated the current difficulties.

"Yes, they anticipated them, but not to this extent." In December of last year the government predicted a five percent reduction of industrial output but it turned out to be more than 30 percent—points out eminent Czechoslovak economist Professor Z. Gaba. "By the end of the year unemployment was to have reached 350,000 but it was already above 400,000 at the beginning of October. Inflation was to have fluctuated in the range of 30 percent, but by October consumer prices had increased almost by half." Another eminent authority, Professor V. Komarek, asserts: "Hasty introduction of pseudo-market management into a structurally deformed economy (with monopolies, state enterprises, state joint

stock companies, and ministry direction) leads only to reinforcement of existing deformations."

So what is happening? Is the "script" unintelligent? Or should one merely change the sequence of the acts, episodes, and scenes, select different actors and performers? But the main characters in the reform are the people, the workers, and if their role amounts merely to pulling their belts tighter and tighter, one can hardly hope for a standing ovation. Many of the people I spoke with think that the fathers of the reform are excessively engaged in politics and have ended up on the extreme right (in the European understanding) wing. And politicization of the economy, as Czechs and Slovaks have learned from the facts of more than 40 years of postwar development, leads to no good.

[signed] Andrey Krushinskiy.

### The Obstacle Course

*The brakes on prices have been released. I remember January 1990 well. In certain Hungarian stores the prices of meat and sausage items went up 20-30 percent. And in others...they went down. A couple of meat combines that had reserves figured it would be more advantageous for them to get rid of them as quickly as possible.*

During the years I worked in Hungary I spoke repeatedly with economists and government bureaucrats about the price policy. Since 1968 the country, taking the path of reform, has consistently engaged in price setting. In that same year price controls were removed from 23 percent of all goods. The prices of fruits and vegetables, for example, began to depend on the time of year and the crops. And it was not until 1985 that the sphere of application of free retail prices grew to 57 percent. And that was the ceiling. The upper limit was the export price of deliveries to the most developed Western market. The enterprises developed an orientation to working for foreign trade, thus improving product quality. Incentives to economize on raw materials and energy were also included in the price system. At the same time a system linked to the normative production cost continued to be applied to some of the items and commodities. And the state enterprises, having been given freedom and independence, became full-fledged participants in the market. But they too had to declare price increases early. State organs could impose a veto. True, they rarely did this. The law of calculation was also in effect: Contractual prices did not come from out of the blue.

Incidentally, here in Moscow one can now find bread for five rubles per kilogram. On what basis? Which market "demanded" that? Or was it the principle of increases for their own sake that was in effect? And who calculated the losses that appeared when the ultra-expensive bread was not bought but left to dry up and was sent out to be used as feed for cattle? Then one of the city authorities explained: Now it is easier for us to lower prices.

Free prices were determined by calculation in Hungary. Because the market is a calculation. Only when there is

an intelligent and balanced approach do the market mechanisms begin to move rapidly.

One must also agree that the price of any commodity need not necessarily be determined by the production cost. When Hungarian enterprises tried to jack up prices by "sewing an expensive piece of fur onto the collar of a cheap coat," in keeping with their old custom of adhering to the principle of a cost-based economy, the consumers in the country were protected by the law and the state. The law on excessive profit has been in effect since 1973. It was modernized in 1985. Sanctions were applied against those plants and factories which raised prices without justification.

There are rumors about this kind of typically market situation. A customer says to the salesman in the store:

"Your cucumbers are too expensive. They are cheaper in the store next door."

"Then buy them there."

"But they do not have any."

In Hungary they are clearly aware that deficits and monopolies, factors which affect prices, are the enemies of the market. A war was declared on them even in the "Kadar era." Enterprises were broken up into smaller units, auctioning proceeded at rapid rates, cafes and restaurants were leased, and the private sector grew. State, cooperative, and private property were equal under the law, they were taxed equally, and competition developed. In Hungary they now want to increase the private sector to 30 percent. Privatization is proceeding on a broad scale. A law has been adopted which prohibits the creation of cartels and monopolistic associations which could limit or eliminate economic competition and bring about higher prices. There could also be these kinds of sanctions: the introduction of certain centrally determined prices which reduce unjustified profit resulting from having monopolies. A special department is created to protect competition and the norms and rules that prohibit unfair competition and run contrary to public interests.[sentence as published]

In Hungary there has always been cooperative and private trade which has competed with the state sector. It has become customary for eggs, apples, and tomatoes to be cheaper in peasant and cooperative establishments than in those run by the state. This is also true of cooperative "rags."

[following paragraph is boxed]The Hungarian version of "domestication" of prices[end box]

Incidentally, our prices ceased to regulate production long ago and they do not reflect the real value of the goods. All this is because of the deficit. It raises prices endlessly. And now the producers are receiving profit without expanding production. Why work—all you have to do is raise prices. Releasing them leads to increased inflation, further devaluation of the ruble, and a reduction in production.

My friends who are Hungarian economists have always said:

"Market prices can exist only in a market economy."

To plan prices and inflation precisely—this is what the Hungarian specialists learned to do. And the country's new economic leaders, relying on free prices, have not met the demand of the trade unions: "Market prices—market wages!" During the period of transition to a social market, and this is what they want to create in Hungary, the central authorities continue to influence the main proportions in the triad "prices—wages—supply."

[signed] Vladimir Gerasimov.

### There's Many a Slip 'Twixt the Cup and the Lip

*Orlov bridge—a stop for trolleys and buses. There is a small waiting line for tickets on the city transportation. Like yesterday, I handed them 70 stotinkas. The elderly sales lady said: "Today it is 80..." Another surprise for the residents of the city—the cost of transportation has gone up. And it will probably soon go up even more, since fuel prices are expected to rise. I was waiting for bus No. 280. Not because I needed to go to the University of Sofia but because the 280 route ends there and the driver will have a few moments free. I wanted to speak with him. The newspapers and radio had reported that drivers on the city's transportation intended to declare a strike.*

But here was the last stop. I introduced myself. In response I heard: Ivan Jordanov, from a family of drivers—my grandfather drove trucks, my father drove both trucks and passenger cars, and I decided to take my place behind the wheel of a trolley bus.

An open face. Thick black eyebrows. A thick black mustache. White teeth glisten in a smile now and then. I asked:

"What is the main purpose of the strike?"

"Higher wages. The starting mark should be 2,200 leva."

"How did the city authorities react?"

"They agreed to discuss 1,800 leva."

"Why not go for a compromise; it would still be a considerable raise?"

"In the first place, it is nowhere near enough. Prices in Sofia have increased many times faster than wages. And they have not stopped but continue to rise for literally everything. And in the second place we now find it difficult to believe their promises. Since this morning I have been hearing complaints and bitter, even insulting words from my passengers. But I was not the one who increased the price of the fare. I was not the one who promised that with the transition to the market and also to privatization life would get easier."

No, the driver Ivan Jordanov did not make any promises. They were made by other people. As early as the spring the coalition government—which "wrested," as the newspapers with right-wing inclinations put it at that time, the monopoly on power from the hands of the communists—announced the entry into the first phase of the implementation of a radical program of economic reform. In February they announced to the public a complex of measures to reduce inflation which envisioned an all-encompassing program of macroeconomic stabilization and price liberalization. The results were to have been felt very quickly. And what happened? There has been an external change. There are many goods in the stores and the panorama of food also gladdens the eye. But here is the problem: We cannot buy them. Over a couple of months prices have increased incredibly. Even a person who does not have to count every stotinka or even every lev frequently cannot afford the goods, services, and food products.

A serious Bulgarian newspaper IKONOMICESKI ZHIVOT, referring to the official statistics, noted: "During nine months of this year Bulgaria produced 134.5 billion leva worth of products. And 70 percent of this sum was gained through increasing prices. The decline in production continues. The newspaper draws attention to the fact that production has been curtailed at 60 percent of the enterprises; since the beginning of the year 223,000 workers and specialists have been discharged. The overall number of unemployed in Bulgaria, according to foreign experts, could rise to 300,000-400,000 in a country with a population of 9 million. As a result, IKONOMICESKI ZHIVOT draws this conclusion: The government and above all its economic group showed unjustified arrogance in coming out "with and without cause" with eloquent assessments and predictions based "only on emotions." It displayed a unilateral approach to conducting the reforms and suffered a defeat in its loudly advertised "second stage." The results of production activity over the nine months were one more proof of the if not erroneous, in any case not fully considered implementation of the economic reform that was so vitally important to the country.

[following paragraph is boxed]Autumn assessments of spring promises from authors of economic reforms in Bulgaria[end box]

In this connection I would like to cite a statement from another newspaper, not a Bulgarian one this time—the London FINANCIAL TIMES. Having analyzed the data on how Bulgaria is proceeding toward the market and the implementation of reforms and privatization, it noted: "The Bulgarian Socialist Party...would prefer a more gradual approach to reforms which would take into account the social costs of such deep changes."

The person with whom I was speaking, the father of two children, would also prefer such an approach. A model son, he also helps his father, who is a pensioner. "Things are even harder for him and mama than they are for

me," he says. All newspapers are dotted with similar admissions when sociological poles are taken.

[signed] Leonid Kuznetsov.

*With a Short Stroke*

*Warsaw, 20 November (TASS). The Central Planning Administration found no signs of revival when summing up the results of the functioning of the economy over 10 months. Moreover, it is indicated in a report from this department that one should not expect positive results before the beginning of the year. A certain revival of the private sector cannot change the general tendencies in the*

*Polish economy, where 80 percent of industry is concentrated at state enterprises. A reduction of the profitability of these enterprises and an increased number of plants and factories operating at a loss are reflected in the state budget, which is not receiving its planned revenues. This year the state deficit reached 26.8 trillion zlotys (about \$2.5 billion). Because of this the growth of wages in the nonindustrial branches is being slowed—public health, education, culture, and science. Under the conditions of the constant growth of prices, this creates a certain social tension. Added to this is the continuing growth of unemployment. The number of people without work in the country already amounts to 10.8 percent of the number employed.*



**Technological Know-How to Be Marketed to West**  
*92UF0250A Moscow IZVESTIYA in Russian 19 Nov 91*  
*Union Edition p 6*

[Article by B. Konovalov, staff scientific commentator: "Translators' on the World Market: Middleman Firm Established in Germany to Promote Soviet Technologies to Europe"]

[Text] Stuttgart and Moscow—At the present time it is becoming increasingly obvious that, in addition to oil, timber, ore and other natural resources, our country's most valuable capital is the intelligence of its scientists, designers and engineers. Unfortunately, we are still living according to the old proverb: what we have, we don't keep, and having lost it, we weep. The "brain drain" has already begun, and if we do not take intelligent measures to stop this process, the country will be deprived of its future.

One of the most intelligent steps is to sell our advanced technologies, or "know-how," in the West and, through that, to provide generous rewards for its creators in the homeland. Unfortunately, so far we are doing a poor job of this. Mainly this is because for the previous 70 years we were oriented toward the importation of others' technologies, rather than toward the exploration of our own.

"As experience shows," V. Yezhkov, deputy chairman for international relations of the USSR State Committee for Science and Technology, which still exists, admitted to me, "the embassy structures are more concerned with their own objectives. We have reached the conclusion that in order to promote Soviet technologies to the West we need special middlemen specially oriented toward that objective.

And they are starting to emerge. On a building in the center of Stuttgart, the capital of the state of Baden-Wurttemberg, the sign "Soviet Center" has appeared. In our country it is called, for short, Sovtekhtsentr. But its full name is longer—"Center for Soviet Science, Technology, Marketing and Education in Europe." It is taking its first steps, but in the future it intends to become known to all entrepreneurs.

The "newborn's" parents are the West German Mesago company and Internauka Ltd, which was established in 1990 by the Soyuznauka Center of the USSR State Committee for Science and Technology. The founding capital was split fifty-fifty, and future profits will also be divided evenly. These will be profits from the payment of services in the concluding of contracts. If there are contracts, this joint venture will prosper, and if there are not, it will disappear from the market arena.

Mesago specializes in international business, technologies trade and the organization of various exhibitions and trade fairs. Its headquarters are in Stuttgart, and it has branches in the United States, Japan, Spain and the Middle East. It also has a Moscow branch, which

employs former GDR citizens with an excellent knowledge of Russian. In particular, Wolf-Dietrich Bach, general director of the Moscow branch, was once the science attache at the GDR Embassy in our capital. So, although the joint venture is officially oriented toward Europe, Mesago is prepared to be a middleman on the world market, as well. And our need for that is immense.

Internauka, which is presently headed by Prof B. I. Salyga, already has in its electronic data bank 50,000 developments, chiefly the work of higher schools and universities, that are not being used in our country. But realistically speaking, only about 10 projects are presently at the stage of negotiations on their introduction in the Western market.

"Soviet scientists and engineers still lack adequate experience in market relations," I was told by Klaus [Hilligardt], president of the Mesago company. "The USSR, for example, has carried out a whole series of 'landings' with its conversion technologies. But in the process there was hardly anyone at exhibitions who could intelligibly explain how these military technologies could be used in our specific civilian firms. They brought them in, demonstrated them, and expected people to buy them. But our buyer is accustomed to specific tie-ins to his production process and detailed calculations of potential profits. That is vitally necessary. After all, most companies are small and medium-sized. They have only 20-30 percent of their own capital, and the rest is bank credits, and the banks are hypercritical and extremely cautious.

"Soviet businessmen do not yet understand that it is not enough to enter the market; it is necessary to maintain a permanent presence in it—to take part in all regular exhibitions and trade fairs, and to inform potential clients in advance of what you intend to offer. One must learn to value contacts.

"German businessmen also need to adapt to the Soviet market. There are serious difficulties here—the unstable political situation, the constant changing of laws, the lack of ruble convertibility, and now also the lack of guarantees from the USSR Bank for Foreign Economic Activities. Yet about 280 million people live in the ruble zone. Moreover, this huge market is right next door to us. So we need to adapt to it. Today, because of the lack of hard currency, the traditional arrangement whereby a Western company would sell its goods and receive convertible money has practically ceased to operate. So we must shift to barter deals, although they are not generally practiced in Europe. Barter is unattractive—it is necessary to find a means of utilizing the rubles that are earned in the Soviet Union itself, to organize production here, and to sell part of the goods back home or in third countries."

K. [Hilligardt] is a businessman of action, like Prof V. Salyga our co-chairman of the joint venture. Next year they intend to organize a special conference on barter for European entrepreneurs, and to organize active-business

schools specializing in different industries for our managers. Sovtekhtsentr's near-future plans include, for example, a business school for people in the metallurgical industry.

Sovtekhtsentr is planning to act as a middleman in the payment of subsidies allocated by the FRG government for retraining Soviet officers being withdrawn from Germany in new occupations on the basis of the business schools. And the money allocated by the FRG for coping with the consequences of the accident at the Chernobyl Nuclear Power Station may be invested very rapidly in technologies that will help restore people's health. For example, effective drugs for purifying blood have been developed in the USSR. Their production can be set up rapidly.

For more than 70 years we lived in a planned economy while the West lived in a market economy, and consequently we presently speak different languages, as it were. That is why "translators" are needed today.

#### **Ivan Silayev Interviewed on G-7 Talks**

*LD2211122191 Moscow All-Union Radio Mayak  
Network in Russian 0606 GMT 22 Nov 91*

[Interview with Ivan Silayev, chairman of the Interstate Economic Committee (MEK), by Radio Mayak political observer Valeriy Kiosa at the MEK offices in Moscow; from the "Panorama" program—live]

[Text] [Kiosa] Good morning to all our listeners. This week has been very rich in events, even by our present standards. We have had the four-day marathon of negotiations with the G-7, and the council of heads of government of the Economic Community members, and an ever-rising flood of reports about the sharply worsening economic crisis. And yet, from the point of view of our domestic problems and of our relations with the world, the negotiations with the deputy finance ministers of the seven leading Western countries occupy a special place. Therefore, Ivan Stepanovich, I would like to make these most difficult negotiations the starting point for our discussion. We already know the results; and moreover, a communique on the outcome of the negotiations will be published in the next few days—maybe even today. So we will probably not talk a great deal ourselves about the specific results, but here is a question: What do the main results of the meeting mean for us, above all? What is your assessment of them?

[Silayev] Indeed, it was a very serious event in our economic life. The most important problem, we all feel, is food: how to live through the winter, how to get through to the spring. It is very important here, in connection with the absence of free currency, to purchase food in good time. However, we have come up against the impossibility of obtaining credit, for we have got so far into debt in a short space of time that practically every day we have had the problem of where to find the money to pay off debts, not to buy anything. Therefore an utterly critical situation has approached:

We do not have, and cannot have, a single kopek of hard currency, because everything has been given up to pay off debts. The international economic community, especially the G-7 countries, understand, and are trying to support our process and to examine the possibility of rescheduling these debts. Naturally, the main condition is that we accept the obligation of joint and several liability. Strictly speaking, one of the results was that eight republics out of twelve accepted liability for all the debts incurred earlier.

[Kiosa] Without any conditions.

[Silayev] That is correct, and each one accepts responsibility not only for himself, but for everybody together. That is what joint and several liability means. Consequently, this made our Western partners confident that not a single kopek, ruble, or dollar will be left unpaid. On the basis of this, the countries agreed to refrain from collecting repayments on medium term and long term credits, and to defer them until 31 December 1992.

[Kiosa] In other words, a year's respite for us to catch our breath.

[Silayev] Yes, to enable us to use our hard currency resources, to put them into the economy—not only into food, but also into investment, the development of production, and so on, especially for the consumer market.

But this does not mean that we can simply forget about this. The conditions of the agreement are fairly tough, but sensible and just. They provide for the active participation by the IMF and others—the World Bank—in our work on reforms. That is to say, this is not simply a deferment of debts, but already the contours of reform, of the market reform which we will implement, with experts from world economic countries [as heard] being called in.

[Kiosa] I was present, so to speak, in the corridors of these negotiations, inasmuch as they took place behind closed doors, and very frequently rumors arose there to the effect that the West had demanded—in exchange for that selfsame billion dollars, which is absolutely essential to us in order to ensure the most urgent payments—had demanded that our gold be pledged, and even figures were mentioned: 100 tonnes, or 104 tonnes. How do matters stand in this respect?

[Silayev] Yes, you're right. Indeed, this took up one and a half days, approximately, for taking into account world practice, they categorically insisted—and we were categorically unwilling to accept. This is a very painful question, and we were unable to agree to this. In the final analysis this was fairly calmly reflected in the communique, where it says that this is possible if we do not find some other sources of redeeming, or offsetting this billion. Well, for instance, by means of oil and other raw material goods and additional resources of ours. If this is not found, ensured, then some part—of course not 100 tonnes—if the worse comes to the worst a partial sale of

gold is possible. But we have come to an agreement that all republics, and altogether, we will take measures in order to preserve of our gold the small quantity that we have in reserve today.

[Kiosa] Yes, indeed. Then there is this question. You said and it has been reflected in the communique that for the time being eight republics are unconditionally in agreement with the principle of joint and several liability, and for the time being four republics have not joined this agreement, although in principle they do not unconditionally reject this approach. Will these four republics—and by the way, which republics are they?—will they not encounter problems in this case on foreign markets, and problems here in our country, say, when obtaining food through import? After all, the food agreement has been signed by 12 sovereign republics.

[Silayev] Yes, well, indeed, you correctly pose the question. After all, the republics—the eight—having also taken upon themselves the liability for those which do not take on this joint and several liability—naturally, they are complicating their situation, even though it is necessary to assume that these republics will join. But the question of time is also a very important factor. That is why these eight will decide how to conduct themselves with respect to [words indistinct]. Naturally, in this case, they are also entitled to raise the question of some restrictions in the realization of the interests of the republics which have not signed—in particular in the food program. But I think that this can obviously—but there is hope nevertheless that [passage indistinct] (?that) the four republics will take the decision to (?join) joint and several liability. I am convinced (?of this).

[Kiosa] Yes, but the four republics. They are the Ukraine, Azerbaijan, Georgia, and Uzbekistan.

[Silayev] Yes, quite correct, with Uzbekistan taking up a stance which on the whole is somewhat more difficult for them. [passage indistinct]

#### Options for Repaying Foreign Debt Viewed

PM0412171591 Moscow IZVESTIYA in Russian  
30 Nov 91 Union Edition p 10

[Unattributed article: "Our Country Cannot Pay Debts"]

[Text] The accord reached at the meeting in Moscow between the representatives of the "seven" and the leaders of the governments of the sovereign states of the former USSR on the settlement of foreign debts and the deferment of payments for medium-term and long-term credits cannot reassure us. With any decision on the partition of debts according to international canons our country remains insolvent [nelikvidnaya], that is we have no possibility of paying out foreign debts by payment methods acceptable to our partners.

Our stocks of convertible currency are down to nil. The balance of payments deficit has reached \$5 billion.

Before the end of the year it is essential to pay \$7 billion while all centralized currency receipts total no more than \$2 billion. Substantial currency reserves have become tied up in accounts with several countries with which "friendly" relations used to be maintained in former times.

We do not have a reserve position in the IMF—that is a special form of credit signifying a country's right automatically to obtain in the IMF unconditional credit in foreign currency of up to 25 percent of its share in the corporation capital—since we are not full members of that organization. Only recently did the USSR receive the status of an associate member, whose fate is now unclear in connection with the disintegration of the state to which this status was given.

The only liquid resource we have for the time being is gold, stocks of which, if we are to believe G. Yavlinskiy, will be just 240 tonnes in state reserves by 1 January 1992. The "seven" have suggested that we mortgage half of it. Considering that this year 319.1 tonnes of gold were exported and the year before 474.6 tonnes, the liquidity of our own resources next year will again be virtually nil.

The self-liquidation of liquidity has thus taken place in the USSR. The further development of events depends entirely on us and could proceed according to one of the following scenarios.

First option. In the spirit of the recently signed treaty on the economic community the USSR Gosbank [State Bank] and Foreign Economic Bank are being abolished as unacceptable symbols of financial diktat from the center and are being replaced by interrepublican organs which are being declared their successors. The foreign debt is divided between the republics, which themselves receive credits and themselves pay for past and future commitments.

The West's reaction to this, today the most acceptable option for us, is not hard to guess. It has the right to make a statement: Inasmuch as the Foreign Economic Bank and the USSR Gosbank acted as the recipients of all credits, it is they, and not their successors, which should settle these credits. When you are settling an old debt you can divide, unite, do what you want. If the USSR, with its rich experience of the October revolution, nonetheless begins to operate on the principle of "to those to whom we are in debt, we forgive you all" and to "distribute" its two main banks around the republics, the West will most likely stop the issue of new credits (except perhaps for "humanitarian" food parcels through charity funds). All the assets of Soviet banks and enterprises in foreign banks will be frozen. Everything which belongs to us abroad—buildings, land, enterprises, ships in ports, goods, and so forth—will be confiscated and channeled into paying off the debt. In a word—catastrophe.

Second option. Russia as the biggest republic with the bulk of export resources fully assumes responsibility for all the USSR's foreign debt commitments. Here the



USSR Gosbank and Foreign Economic Bank become Russian banks. All the USSR's liquid assets go to Russia as does the right to demand debts to us from other states, especially as they have arisen mainly as the result of the export of Soviet arms produced mainly in Russia.

This option could be more acceptable to the West were it not for one "but." Russia, in contrast to the Baltic republics, is not recognized as an independent state. When it was issuing the debt the West was dealing with the USSR and not with the states of "Russia," "Kazakhstan," "Tatarstan," or "Chechnya." That means that with this option the West's reaction could most likely be the same as in the first option: Pay for the old debts, then we shall start speaking about new credits.

In my view only the third option remains for serious examination. The republican leaders agree that the subject of international law is the Union of Sovereign States (despite all the absurdity of that name: After all what makes a state a state is the fact that it is sovereign) headed by a president and a government representing the interests of the republics belonging to it in external relations with other countries within the framework of the powers they have received.

These powers could change. But at the present stage if we—all of us together and each individually—want people to deal with us seriously and not merely to smile against the background of a blazing hearth in the White House or Elysee Palace, the center's economic powers should include the following: a unified monetary, currency, and credit policy, a unified State Bank with the function of money emission and a unified Foreign Economic Bank answerable under international commitments, and a unified membership of and unified strategy of mutual relations with the IMF and the World Bank.

We have already abolished our international liquidity. Now, to all appearances, we may abolish the last opportunities of restoring it. I am afraid we may abolish the remains of common sense!

#### **Need Seen for Legal Protection of Workers Employed Abroad**

92UF0287A Moscow TRUD in Russian 28 Nov 91 p 2

[Article by A. Kozlov: "Full Dollar Value"]

[Text] As usual, at 8:30 in the morning on 22 September, Flag Officer Tkachev made radio contact with the captains of fishing vessels off the coast of Liberia. When it was time for the MKTM-8415 "Bakurus" to report, there was no communication. The officer decided that the boat was out of radio range and would report that evening, but the "15" did not report at 20:00 or the next morning. It was not until 14:00 that the faltering voice of the second assistant captain of the "Bakurus" was heard:

"The Liberians seized our ship. They arrested the captain and took him ashore...."

This was the first report of the seizure of the Soviet fishing boat off the coast of Liberia, leased by a Soviet-Nigerian company along with other vessels of the Pioneer Base of the Maritime Fishing Fleet. The "15" was seized by Liberian opposition forces—the National Patriotic Front of Liberia (NPFL).

A week later there was an unexpected report from a refrigerator mechanic on the "Bakurus."

The men on the MKTM-8415 were fishing near the shore when "something got caught on the propeller." After the engines had been shut off, the crew started trying to free the propeller. At that time a boat carrying armed men sailed alongside, and they began firing on the Soviet ship. They boarded the fishing vessel, ordered the fishermen to lie face-down on the deck, and began looting the ship. They took everything: the catch, the crew's rations, fuel, and personal possessions. They even took a Russian typewriter. The crew members were stripped to their shorts. The pirates made the magnanimous statement that they had nothing against the Soviet fishermen, but that the ship was flying a "convenient flag"—the flag of Nigeria, which supports the government of Liberia and is therefore an enemy of the NPFL.

It took the USSR Ministry of Foreign Affairs and other official agencies more than a month to rescue the fishermen. The financial loss was substantial. This is not the first time this has happened to a Soviet vessel, and it probably will not be the last. We still remember the seizure of the fishing boat off the coast of Somalia, the mishap with the tragic outcome in the Nigerian port of Lagos, and other such incidents.

What is the reason for the increasing frequency of seizures of Soviet ships—not only fishing boats—and other such incidents? It is the opinion of the USSR Ministry of Foreign Affairs that our organizations and firms, which are now operating autonomously on the foreign market, are not fully aware of the dangers in zones of instability and conflict and are taking completely unjustified risks.

This was stated in extremely diplomatic terms, but still....

The reasons for the incidents, in my opinion, are elementary. The dollar is to blame for everything. More precisely, it is the fervent desire for dollars.... The owners of the fishing fleet leased boats with crews to anyone anywhere, as long as they got paid in dollars. Contracts with foreign leasing firms were signed, it now turns out, "recklessly," without a thorough analysis of the contents of the documents. This legal illiteracy, which could more precisely be termed irresponsibility, had an immediate impact. People who are cut off from their motherland not only experience mishaps like the one described above, but also find that they have no social protection whatsoever, are exploited mercilessly, and can be disabled or even die. There are many examples of this.

Executive Officer L. Mudrenko from Novorossiysk suffered an injury while fishing off the coast of Africa. He returned gravely disabled but was not eligible for any benefits. It turns out that anyone who works on a ship under a "convenient flag" and loses contact with his trade union also loses this eligibility....

Seaman V. Tatarintsev, also from Novorossiysk, spent a week in a hospital in an African country. When he returned to his home port, his hospital bill (this was before the bill paying procedure was revised) was not paid in full. Once again, it was his work under a "convenient flag" and his loss of contact with the trade union....

These are not even the worst examples of the flagrant violations of labor laws by shipowners and the essentially illegal sale of manpower abroad. When they sign contracts with foreign firms, they only care about the amount they will receive in dollars, and they "forget" about the social protection of the fishermen. Cash is more important than human health, and sometimes even human life. It is not surprising, therefore, that our ships under a "convenient flag" work where no one else will, in the areas the officials from the Ministry of Foreign Affairs describe as "zones of instability and conflict"....

When the preoccupation with hard currency became epidemic in the Ministry of the Fish Industry, the central committee of the trade union "rebelled." It demanded that shipowners not sign contracts with foreign firms without the approval of the trade union, without its assessment of the social protection afforded by these documents. The administrators of fishing enterprises, however, called the trade union's demands an infringement of their economic autonomy. According to them, their actions were economically expedient and beneficial to labor collectives.

In fact, fishermen, and even union committees, are frequently quite vocal in their support of the contracts signed with foreign firms. The reason is that many of them, especially the crews of small boats, experience long periods without work. There are no fish in the Black Sea and few fish in the Baltic, and this offers them a chance to work, and to collect their wages in hard currency. Under these conditions, who would look into the nuances of a contract? It is better to sign it before the foreign firm changes its mind or a competitor gets there first....

In addition to fishermen, seamen, and pilots, specialists in other fields are also going abroad to work. The term "brain drain" is commonly used in our news media, and the concept of "selling manpower abroad" has become familiar. These are already part of our daily reality and our way of life. First we create problems, and then we try to surmount them. We plunge headlong into new pursuits. In the legal sense, we are absolutely unprepared to

work in other countries and we are still not making any preparations for this. We have no laws to regulate the export of manpower and provide people with social guarantees. We need legal standards for immigration, for the sailing of those vessels under a "convenient flag," etc. We still have not ratified many of the international legal documents in this field. We have only ratified two, for example, of the five conventions of the ILO [International Labor Organization] on the work of fishermen. We still do not recognize many of the documents of the International Maritime Conference, the FAO [Food and Agriculture Organization], and others. We must not sell manpower to other countries until we have done this.

Furthermore, we must consider the state benefit of the export of specialists. After all, Turkey and Yugoslavia once received large amounts of hard currency for this.

Why are foreign firms and businessmen so eager to hire Soviet individuals? They are fully aware that there are many gaps in our legislation and that we have not ratified many of the international conventions protecting labor interests. They are taking advantage of this, paying low prices for the labor of our fishermen and other specialists, without spending a penny on the normal working conditions required by international legal standards.

There is also another problem. The cheap labor exported illegally (and this is exactly how jurists describe it) to other countries creates competition for local specialists and gives rise to conflicts.

In short, a problem exists and must be investigated before it acquires global dimensions.

According to the central committee of the fish industry workers' trade union, this difficult problem will have to be solved in three stages. The process must begin with collective bargaining. The collective contract must stipulate the terms on which people (the crews of ships and others) will be allowed to work abroad, the amount of their wages and the payment procedure, and their social guarantees. Another problem is that we still do not have a law on collective bargaining to curb the excessively "autonomous" economic administrators. There is no other way of forcing them to consider the demands of trade unions. We also need other laws and legal instruments on the governmental level—on immigration, the "convenient flag," etc. The third stage will entail our quicker submission to the jurisdiction of international law by ratifying the documents of the ILO, FAO, and other organizations regulating and defending human rights.

Who will assume the responsibility for all of this work? Who will initiate the drafting and adoption of these documents in our country? The All-Union Communist Party of the USSR? The Federation of Independent Trade Unions of Russia? Sectorial trade unions? Someone else, perhaps?

### Economic Aspects of U. S. Foreign Policy

92UF0221A Moscow MIROVAYA EKONOMIKA I MEZHDUNARODNYYE OTNOSHENIYA in Russian No 10, Oct 91 (Signed to press 22 Sep 91) pp 18-28

[Article by Vladimir Borisovich Benevolenskiy, candidate of economic sciences and learned secretary of ISKAN AN SSSR, and Andrey Vadimovich Kortunov, candidate of historical sciences and department head at ISKAN AN SSSR: "Economic Interdependence and U. S. Foreign Policy"]

[Text] Throughout American history economic factors have traditionally played a prominent role in how the national interests of the United States were defined, foreign policy tasks and priorities were shaped, and various elements of national might were used in the international arena.

Of course, realization of states' economic interests by means of foreign policy (by carrying on corresponding international talks, reaching agreements and forming alliances, exerting political and military pressure on enemies and rivals, and finally through military actions, seizing territory, annexation, and reparations) is an ancient phenomenon that has been well studied by historians, sociologists, and economists. Most of the existing theories of national interests focus precisely on the interests of economic development, and even security (ensuring the territorial integrity of a state, its political independence, and so on) is often viewed as a necessary condition, a prerequisite to the realization of economic interests.

At the same time one can probably say that the primacy of economic interests in American foreign policy has always manifested itself more vividly than in the foreign policy of a majority of other countries. This has been fostered by a number of conditions and circumstances: the United States' long isolation from the main world "centers of strength," its high level of security guaranteed by its geographic location, and the pragmatism traditionally characteristic of Americans, which has shown itself in foreign policy too. While in Europe political relations have often gone ahead of economic ties and created the foundation for advancing the economic interests of particular countries, the United States has been characterized by rapid economic expansion whose results were later consolidated in the form of political and legal relations.

Today too U. S. foreign policy is determined to a significant degree by the desire to strengthen its economic interests and create certain guarantees that these interests will not be threatened. In the final analysis "American leadership" in the Western world is just a kind of "insurance policy" for the United States' privileged position in the world economy.

Many examples can be cited of specific foreign policy actions aimed at supporting American economic interests: pressure on Japan to limit the export of Japanese

goods to the American market; giving political and military support to various "third world" states in exchange for an investment climate favorable to American corporations; American actions within the framework of COCOM which, in the opinion of observers, were often aimed at countering the rivals of American companies in their endeavor to establish new markets in the socialist countries; and the actions of the United States in the Persian Gulf crisis, which were caused, among other factors, by a desire to keep access to the petroleum resources of the regions. The organic unity of business interests with American foreign policy programs has already been treated in detail in the Soviet scholarly literature.

A second aspect of the relationship of economic might and foreign policy in the United States has been studied less, namely the question of using economic levers to achieve foreign policy goals. In other words, the question of how, in what forms and with what effectiveness, the American economy serves American policy.

Theoretically, economic might is a more convenient stool of foreign policy than many "traditional" instruments, among them military force. This is above all because the application of a state's economic might is not so dangerous and does not involve such significant costs. It is easier to use it "in measured doses," and even the harshest economic pressure does not cause as much of an outcry in the country against which it is directed as attempts at military-political blackmail. Moreover, economic influence is usually more stable and reliable than political influence, to say nothing of military pressure.

The experience of the postwar decades illustrates that all the achievements of any magnitude by American foreign policy rested on a solid economic foundation. For example, the policy of shaping a postwar system of international alliances which, despite certain obvious failures, can be considered generally successful, included as an economic component the Marshall Plan for the countries of Western Europe, a stabilization program for Japan, expansion of American capital investment in Latin America, and the creation of a system of influential international economic organizations, the IMF, GATT, and the IBRD [International Bank for Reconstruction and Development]. In particular, documents of the State Department contain evidence that within the framework of the Marshall Plan the United States used economic aid deliberately to stimulate unification trends in the political sphere in Western Europe, thus overcoming the contradictions among the European national states and strengthening and stabilizing the capitalist system as a whole.

Since the mid-1980's U. S. foreign policy circles have shown an awakened interest in economic problems, especially the possibilities of using economic levers in foreign policy. This interest is not accidental. It results first of all from a certain strengthening of the U. S.

economic position in the last decade and growing confidence that the economic power of the United States guarantees it a position of strength in world politics.

On the other hand, the history of the last 10-15 years graphically demonstrates the decline in the effectiveness of traditional diplomatic means of carrying on foreign policy (for example, the prolonging of major international negotiations). With the attainment of strategic parity between the USSR and the United States the limitations of military force as an active factor of politics in the international arena also became a real factor. The failures of large-scale secret operations by the CIA and other American special services in Southeast Asia, above all in Vietnam; the unsuccessful attempt to free the American hostages in Iran; the inability to solve chronic conflicts in the Middle East and Central America by military means; and the high level of the economic, political, and ecological costs of large-scale military operations which were waged against Iraq demonstrate that this instrument is poorly suited to achieving strategic goals.

The United States today recognizes the impossibility of a one-sided orientation to military force in resolving serious political problems and takes account of the role of the economic component in achieving stable, long-term solutions of political issues. Even at the height of military actions against Iraq the American political leadership stressed that a key element in settlement of the situation in the Persian Gulf region would have to be creation of favorable conditions for economic growth by all countries of the region. The processes taking place in Europe also illustrate that under contemporary conditions the most effective means of action in the international arena today is a combination of military-political and economic actions.

The economic interdependence of a majority of the world's states, on the one hand creates certain limitations on the realization of foreign policy goals and, on the other, gives rise to new possibilities, especially for the economically strongest states which are capable of molding those models of interdependence which most suit their interests. We attempt below to identify the nature and scale of the influence of growing interdependence on the international political position of the United States and its potential for reaching particular foreign policy goals.

## II

The objective basis of interdependence is, of course, internationalization of the world economy, that is the surpassing growth of world economic ties in relation to the development of world production. Between 1970 and 1989 the physical volume of the industrial production of the developed capitalist countries increased 171 percent while the physical volume of export grew 270 percent and import rose by 248 percent. In the developing countries the physical volume of industrial production grew in the same period by 101 percent, while physical

volume of export rose 46 percent and import 146 percent. In just 4 years, from 1985 to 1989, the volume of capital borrowed in international financial markets increased by more than one-quarter, reaching 300 billion dollars.<sup>1</sup> By the mid-1980's the proportion of overseas production of transnational corporations reached one-seventh of global production of goods and services.<sup>2</sup> The synchronization of the world economic cycle, set from the moment of the 1873 crisis to 1975, also illustrates the intensified interdependence of economic development of countries within the framework of the capitalist system.

Growing involvement in world economic ties is characteristic not only of small countries or countries that are experiencing a shortage of certain key production resources, energy raw materials, finances, and the like. This process is also fully typical of an economic giant which possesses everything necessary for autonomous economic development, such as the United States.

Between 1970 and 1989 the share of foreign trade turnover in the U. S. GNP rose from 8 to 18 percent.<sup>3</sup> The volume of direct private U. S. capital investment abroad rose from 83 billion dollars in 1971 to 327 billion in 1988. In this same period the volume of direct private investment in the American economy rose from 14 to 329 billion. The total of American assets abroad rose from 165 billion dollars in 1970 to 1,254 billion dollars in 1988. The total of foreign assets drawn into the American economy increased in this same period from 107 billion dollars to 1,786 billion.<sup>4</sup> Thus, the integration of the U. S. economy into the world economy reached a qualitatively new, higher level in the last two decades.

By itself, however, this does not signify growth in objective potential for American political influence. History has many examples of how a particular country's inclusion in a certain system of international economic relations limited its political opportunities, tied it to definite partners, and made it vulnerable to economic pressure from them. Economic interdependence engendered by the growth of world economic ties vary rarely takes the form of equal, symmetrical mutual dependence among the participants in international relations.

Therefore, the states participating in international economic relations often differ sharply from one another by the scale of their economic potential, technological development, and place in the international division of labor; the interdependence among them is usually asymmetrical. In our scholarly literature asymmetrical interdependence has often been equated with one-sided dependence and criticized as a manifestation of neocolonialism and unequal economic relations, the result of a strategy aimed at subordinating states which are less developed economically to the more developed ones. One can hardly agree with such an interpretation of asymmetrical interdependence.



Above all, it is an objective phenomenon that does not depend on political goals. There cannot be equal interdependence in economic relations between the United States and Honduras, between the USSR and Mongolia. Moreover, this kind of asymmetry can, for a number of parameters in bilateral relations, promote stability of the system of relations as a whole. In other words, the sum of many bilateral asymmetries creates a stable system of global multilateral interdependence, a set of relations whose breakup has significant negative consequences for each of the parties, which allows mutually dependent subjects to maneuver actively within the framework of the established asymmetries.

It is a different matter that attempts are sometimes made to use this asymmetrical quality for political purposes. These attempts usually produce only tactical successes, and only when the object of the pressure is involved in a bilateral, not multilateral, system of interdependence.

The existence of relations of interdependence predetermines the range of strategic interests of their participants, and the degree of asymmetry of the interdependence predetermines the potential for the partners to exert a vigorous influence on one another.

### III

From the standpoint of the new opportunities that are opening up for U. S. policy as well as the objective limitations on this policy, it is especially interesting to analyze the nature of the interdependence of the U. S. economy and the world economy in four spheres: credit and finance; science and technology; energy and raw materials; and food. In each case we are dealing with a specific model of interdependence which has a different impact on U. S. political capabilities in the world.

1. The credit-financial interdependence has the most starkly asymmetrical character. Financial assets in foreign hands in 1988 were just 6.4 percent of all assets in the United States. The outflow of direct private U. S. investment abroad in 1980-1988 was only 3.7 percent of private production capital investment within the country during these years, and the influx of direct foreign investment in the United States in the same period was 6.9 percent of internal production capital investment. The accumulated volume of direct foreign investment in the United States in 1988 reached just 5.1 percent of the assets of non-financial American corporations.<sup>5</sup>

Considering that the dollar continues to be the primary reserve currency in the world and that the United States has a leading role in the key international economic organizations, it can be said that the U. S. financial system determines the functioning conditions of the world financial system more than it depends on them. In the credit and money sphere the Americans have significant potential for influencing the macroeconomic parameters of other states. Manipulation of the interest rate (when it rises) evokes an influx of foreign capital to the United States, draining other financial markets.

Movement of capital in the other direction when American interest rates decline can lead to an excess of capital resources in other countries, which threatens increased inflation. The exchange rate of the dollar is one of the most important factors that determine the direction of international commodity flows. Countering unilateral U. S. measures in the credit and money sphere is a difficult and expensive business because it requires the combined efforts of most of the main partner-rivals, and as experience shows, such unity can be hard to attain.

Under these conditions the United States' financial tools have great potential as levers of political pressure, above all in relation to developed countries which have "open" financial systems and to developing countries which are greatly dependent on an influx of financial resources from abroad. As the Eastern European countries and the USSR are drawn into the world currency-financial system they too will enter into relations of asymmetrical interdependence with the United States. It is very probable that the United States will try to extract the maximum political advantage from this situation.

The U. S. problems that flow from the growing foreign indebtedness and the deficit in the trade and payments balances should not be exaggerated. The indicators cited above which characterize the scale of the cumulative, not ongoing dependence of the U. S. financial system testify to the preservation of an adequate margin of safety and the autonomy of the American economy. Use of the means of protectionism, state export subsidies, and control of international credit transactions could quite quickly eliminate the foreign trade and balance of payments deficits, but blocking off foreign economic ties plainly contradicts both the economic and foreign policy interests of the United States, which uses the existing asymmetry in economic interdependence to solve many major questions in its own international relations.

2. The second exceptionally important sphere of interdependence is scientific-technical progress. Here the United States occupies a special position, resulting from the fact that it has potential that allows it to carry on research along the entire front of scientific-technical progress. At the same time, by concentrating resources in certain selected areas of scientific-technical development and through organizational advantages in the stage of diffusion of innovations Japan, the Western European countries, and the new industrial countries have been able to achieve significant successes. The degree of asymmetry in favor of the United States in the framework of scientific-technical interdependence is much less than in finances or economics as a whole. The American market for science-intensive and technically complex output is really strongly interlinked with the corresponding world markets. Whereas the proportion of import in consumption of certain key types of science-intensive and technically complex products in the United States in the early 1970's was no more than 6-8 percent, by the end of the 1980's Americans imported about one-quarter of the electronic components used, one-third of the computer equipment, industrial robots,

and forge and press equipment, one half of the metal-cutting lathes, and two-thirds of the processing centers with DPC [digital programmed control]. At the same time the proportions of analogous types of products exported from the United States hardly changed at all and remained at the level of 10-20 percent (see Tables 1 and 2). This shows the logic of the heightened attention that the American leadership gives to these aspects of relations with their allies and also with the new industrial countries. The economic and political significance of the level of scientific-technical development is constantly rising. The United States is forced to make efforts to find mutually advantageous variations of cooperation in the sphere of science and technology with states that have major achievements in this field such as, for example, participation by the allies in the realization of the SDI, permitting foreign capital into science-intensive sectors, organizing joint enterprises in the United States, and encouraging the import of foreign innovations, which makes it possible to economize on the savings fund during structural reorganization of the economy. In the matter of export control, after unsuccessful unilateral measures in the early 1980's, official American organs

resorted to a number of concessions (lessening restrictions on trade in computer equipment) in order to strengthen the international structures of export control within the COCOM framework.

**Table 1. Proportion of Import in the Consumption of Certain Types of Science-Intensive and Technically Complex Products in the United States (in percent)**

Product	1972	1980	1987
Metal-Cutting Lathes	8.0	22.5	50.9
Forge and Press Equipment	6.0	17.1	29.4
Processing Centers with DPC	-	20.8	66.1*
Industrial Robots	-	-	33.3*
Computer Equipment	0.0	6.2	31.5
Electronic Components	6.2	17.3	23.1

\*1986.

Source: "1989 U.S. Industrial Outlook," Washington, 1988, pp 23-2—23-7, 30-2, 30-9, 34-1, 34-2.

**Table 2. Proportion of Export in Production of Certain Types of Science-Intensive and Technically Complex Products in the United States (in percent)**

Product	1972	1980	1987
Metal-Cutting Lathes	15.1	13.7	21.6
Forge and Press Equipment	18.4	24.3	22.0
Processing Centers with DPC	-	13.8	10.2*
Industrial Robots	11.6	19.2	19.1
Computer Equipment	21.3	29.5	36.3

\*1986.

Source: "1989 U. S. Industrial Outlook," Washington, 1988.

The scientific-technical interdependence of the United States and its primary allies in Western Europe and the Far East, which took on not just an economic but also a military measure in the 1980's, strengthens the traditional priority of Western Europe and Japan in American foreign policy of the postwar years.

It should be stressed, however, that the United States retains considerable potential for following a policy of technological hegemonism and using scientific-technical cooperation in its own interests. Overall the United States still preserves its leadership at present not only in the sphere of pure research, but also in the production of the most complex, science-intensive articles, conceding the "lower" part of the spectrum of "high-tech" output to its competitors. For example, the average cost of imported industrial robots in 1989 was 11,000 dollars a unit, while the average cost of the industrial robots made by American producers was 38,000 dollars.<sup>6</sup> Thus, the American suppliers produced the most expensive, and therefore technically sophisticated products. While giving way to Japan in the production of home radio

electronics and personal computers, the United States is keeping its position in the production of large and super computers. American companies also dominate the world markets for software, one of the key goods in any highly developed economic complex, and also in "artificial intelligence." The nature of the U. S. advantages also predetermines the direction of possible use of these advantages in the interests of foreign policy, because these products find effective application only in the highly developed economic complexes.

As for the Eastern European countries and the USSR, at the present time they do not have any really developed relations at all with the United States in the scientific-technical sphere. The nature of these relations—if they take shape in the future—and whether or not this make it possible for the United States to exert political pressure depends above all on the strategy of scientific-technical development which is adopted by these countries. The policy of copying American achievements and trying to make import one of the main sources of technological development with this import oriented

primarily to the United States would lead to the creation of a model not even of asymmetrical interdependence, but rather one-sided dependence on American technology. In this case scientific-technical advances will be a powerful lever of American policy in relation to the countries of Eastern Europe and the Soviet Union.

On the other hand, a strategy based on intensive development of our own scientific-technical base, maximally effective use of the advances of pure science for production purposes, and preferential cooperation with the countries of Western Europe and East Asia in the development of new technologies and introducing them will then make it possible to enter into relations with the United States that have less asymmetrical interdependence. This strategy also seems preferable because the states which are rivals of the United States in the scientific-technical sphere have an objective interest in coordinating efforts with the states that have world-level scientific-technical potential in at least several spheres, in order to overcome their own asymmetries in technological exchange with the United States.

3. U. S. dependence on import of energy and raw materials changed greatly under the influence of the latest stage of the scientific-technical revolution, which unfolded in the second half of the 1980's. Introduction of the achievements of the "microelectronic revolution" made it possible to achieve major success in resource conservation. The contemporary structural reorganization of the economies of the developed countries has far-reaching consequences. In material production the new structural nucleus has become the set of science-intensive sectors, which have comparatively low energy- and materials-intensiveness. The continuing growth of the service sphere has been stimulated in recent years by a broadening of demand for business services: programming, service of systems of computer and automated equipment, and consulting. In essence it is being integrated with material production, and as a result the service sphere ceases to be a kind of "superstructure" above the base of material production; rather it plays a key role in the reproduction not only of the "human factor" (education, health, recreation), but also material wealth.

The resource-saving trends in the United States in the last 10-15 years can be described by the following indicators. Specific consumption of energy resources declined by 27 percent in the period from 1972 to 1989, including a 40 percent drop for petroleum and natural gas. The total volume of consumption of energy resources rose by just 13 percent in these years.<sup>7</sup> From 1970 to 1988 specific consumption of iron ore declined by 80 percent, of lead by 36 percent, copper 24 percent, and cement 36 percent.<sup>8</sup> In part these processes are linked to retardation of the rate of economic growth, but the basic cause is structural changes in the economy.

These trends in consumption of raw materials and energy have mitigated but not eliminated the dependence of the American economy on foreign supplies. It is

unlikely that the "energy-raw material" factor can be used to pressure the United States, for example by OPEC or similar raw material cartels of the "third world." In addition to the transition to the resource-conserving type of economic development the United States has also established other stabilizers to counter situations like the 1973 "petroleum shock." U. S. policy has been oriented to diversification of sources of energy raw materials, above all petroleum supplies, and also to creation of reserve supplies of strategically important types of raw materials. The United States' main allies have taken similar steps.

Moreover, the third world countries who have large incomes from exporting raw materials to the United States will be restrained from attempts to use their energy and raw materials exports as a lever of pressure by the fact that they have a critical need for the various kinds of modern equipment and the credit resources of the United States and its main allies, in order to meet the challenges of their own economic development.

Of course, the threat of long-term destabilization and significant changes in the established system of energy raw materials supply of the developed capitalist countries will be taken badly by them. Iraq's seizure of the Kuwaiti oil fields drew a very harsh reaction from the United States and the other countries which have economic interests in the Middle East. But in this case we are dealing with the prospect of a fundamental disruption of the status quo in the region, capable of going far beyond the framework of the "margin of safety" accumulated by the primary consumers of Middle East oil in the process of many years of adaptation to the consequences of the "petroleum shock" of the 1970's. It also should not be forgotten that the military actions in the Persian Gulf did not begin so much as a result of the action of economic factors, but were above all a reaction to Iraq's crude flaunting of the norms of international law by occupying a sovereign, independent state. In other conditions the international community, including the United States, might have limited itself to supporting economic sanctions.

Current trends in the production and consumption of energy and raw materials in the world allow us to note that if the present structure of export—where raw materials and semifinished articles are primary—of the majority of countries of Eastern Europe, including the USSR, is preserved, there exists a possibility of sharp clashes between them and the developing countries in the Western markets. The United States will, undoubtedly, use such a situation for political purposes, pitting one against the other and bargaining the most advantageous conditions of economic and political relations for itself. This is already happening in some raw material markets. In all likelihood this strategy can be countered in two ways: first, by changing the structure of export as quickly as possible, and second, by expanding coordination of export activity with countries that produce similar kinds of raw materials and semifinished articles.

4. In the late 1980's the United States remained one of the major producers of agricultural output in the world and the leading exporter of certain key types of food and feed. The United States accounts for more than half of world production of soybeans, almost half of the production of grain corn, about 15 percent of wheat production, and 16 percent of meat (slaughter weight). American export of grain corn and soybeans is 65-75 percent of the world total, while its wheat export is 30-40 percent and rice is 17 percent.<sup>9</sup>

About 40 percent of American agricultural exports go to Asian countries, including almost 20 percent to Japan. Western Europe accounts for 20-25 percent of American agricultural export, Latin America 15 percent, and the Africa countries 6 percent.<sup>10</sup>

The effectiveness of using food policy to achieve particular foreign policy objectives in the future will be determined by the development of agricultural production in other regions of the world (above all in the developing countries and the USSR) as well as the very important factor that American production of key food and feed crops is very export-dependent. In the 1980's about one-quarter of the grain corn, approximately 40 percent of the soybean harvest, and more than half of the wheat harvested went for export.<sup>11</sup>

#### IV

The regional structure of international economic relations is also an important factor in shaping American foreign policy priorities.

In the last 10-15 years the developed countries have continued to occupy the principal place in U. S. foreign economic ties: they account for two-thirds of foreign trade, three-quarters of American overseas investment, and nine-tenths of foreign capital investment in the United States.<sup>12</sup>

The economic interests of the United States, Western Europe, and Canada are especially closely intertwined. The Western European countries are the leading foreign investor in the United States (almost 70 percent of all foreign capital investment in 1988). In the last 10 years the Western European share in all foreign capital investment in the United States has risen from 42 to 48 percent.<sup>13</sup>

In U. S. foreign economic ties with the third world, Latin America continues to be first (12-14 percent of foreign trade), but in the period from 1975 to 1988 the proportion of relations with countries of the Pacific region—above all with the group of fast-developing states in Southeast Asia: South Korea, Taiwan, and Hong Kong—rose from 5 to 10 percent of foreign trade.<sup>14</sup>

The data cited on the development of economic interdependence permit us to draw the conclusion that the United States' relations with the developed capitalist countries, above all with the main states of Western Europe, Canada, and Japan, have a priority role. They

are joined by an interest in further development of the international capital market and exchange of scientific-technical advances. Under current conditions the financial system and scientific-technical innovations are the main elements of economic development. The significance of the energy and raw material component is diminishing (considering the remarks above about sharp, large-scale changes in the conditions of energy and raw material supply to the industrially developed countries). It follows that growth in the "self-sufficiency" of the industrially developed countries and certain new industrial countries adjacent to them is likely and the relations of this groups of states will probably be closed in nature.

In all likelihood we can expect that the economic significance of the developing countries for the United States (with the exception of the countries of East and South-east Asia, the Middle East, and the leading states of Latin America) will decline. This should then lead to a diminution of the place of the developing countries in the system of American foreign policy priorities. The United States can be more patient with political overthrows, social upheavals, and economic changes that take place in most of the regions of the "third world."

Of course, this situation will not mean that the United States completely withdraws from those developing countries which are losing their importance for America, or that the United States will renounce interventionism in the "third world." But the lower priority of certain regions (for example Tropical Africa or South Asia) creates new tactical opportunities for Soviet foreign policy. It is very important not to give in to the temptation to "fill the vacuum" which is forming in these regions, not aspire to become involved politically and economically in regions that do not hold vitally important interests for our country. It would be an extremely counter-productive policy on the strategic level, although it is attractive in some tactical senses, to try to unite the "world village" that remains outside the developing system of global economic interdependence under the aegis of the USSR and pit this "world village" against the "world city."

A more promising policy is to consistently include the USSR in existing subsystems of interdependence, even considering that for all the foreseeable future this interdependence will be extremely asymmetrical for the USSR and our partners will unquestionably use this for political purposes. The experience in the last 1.5-2 years with carrying out market-type economic transformations in the USSR and efforts to open up our economy for broader contacts with Western partners testify to the significant advantages of this policy. Among other things, it undoubtedly helped overcome a number of long-standing problems of our economic relations with the West—weakening of the export control system and nomination of the USSR for membership in international economic organizations; it made it easier to obtain credit, and for the first time in many years aroused real interest in large investments in modernizing the Soviet



economy. The prospect of integrating the Soviet economic space into the world market is calling forth efforts in the West to look for solutions, acceptable to the Soviet side, to major political problems, including the questions of shaping new structures of security and economic development in Europe. Growth in the potential of the economic interdependence of the USSR and other countries within the framework of the world market will, in our opinion, promote diversification of the USSR's foreign policy tools and create favorable opportunities to conduct an active foreign policy.

#### Footnotes

1. Calculated according to "The Economic Position of the Capitalist and Developing Countries, Supplement to the Journal ME i MO, Survey for 1989 and Early 1990," pp 7, 32, 36, 150, 152; op. cit., "Survey for 1985 and early 1986," p 10.
2. "Transnational Corporations in World Development: Trends and Prospects," United Nations, New York, 1987, p 102.
3. Calculated according to "The Economic Position of the Capitalist and Developing Countries, Supplement to the Journal ME i MO, Survey for 1987 and Early 1988," p 55.
4. "Statistical Abstract of the United States," Washington, 1990, p 793.
5. Calculated according to Ibid., pp 425, 492, 525, 793; "Statistical Abstract of the United States," 1989, Washington, p 421.
6. "1990 U. S. Industrial Outlook," Washington, 1990, p 21-4.
7. Ibid., p 3-3.
8. Calculated according to "Statistical Abstract..." op. cit., 1988, pp 407, 667-671; op. cit., 1990, pp 425, 700-702.
9. Op. cit., 1987, pp 641; op. cit., 1990, p 656.
10. Op. cit., 1987, p 640; op. cit., 1990, p 656.
11. Op. cit., 1987, p 642; op. cit., 1990, p 656.
12. Op. cit., 1987, pp 780, 782, 792-795; "Survey of Current Business," No 6, 1987, pp 43, 45; "Statistical Abstract of the United States," 1990, pp 806-809.
13. Op. cit., 1987, pp 780, 782; "Survey of Current Business," No 6, 1987, pp 43, 45; "Statistical Abstract...", op. cit., 1990, p 793.
14. Op. cit., 1987, pp 792-795; op. cit., 1990, pp 806-809.

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### EC, NATO as Framework for Europe's Future

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[Article by Tatyana Glebovna Parkhalina, candidate of historical sciences and department head at the USSR Academy of Sciences' Institute of Scientific Information on the Social Sciences: "On the Future Architecture of Europe"]

[Text] In recent years a realignment of forces and reevaluation of values have taken place in Europe whereby the propositions and stereotypes that formed after World War II and existed up to the 1990s are in most cases no longer valid. The postwar so-called "peaceful" order, which was based on a bipolar system of blocs, overarmament and intimidation [ustrasheniye] or deterrence [sderzhivaniye], has collapsed, and a new one has yet to be established. Fundamental changes have taken place in East-West relations, and even greater changes have occurred in the East European countries. The changes that can be seen in Western countries are no less important. Events in the Persian Gulf showed that the confrontation vector is shifting from the East-West axis to the North-South axis. In the 21st century Europe may encounter such dangers as economic war on the part of Islamic fundamentalism, the chief expression of which would be the restriction of oil deliveries; mass migration from North Africa; and terrorism on a growing scale. And the use of nuclear weapons in the Middle East cannot be ruled out. New types of threats are arising in Europe itself—especially the arousal of nationalism in the Central and East European countries, as well as social and economic instability. Under these conditions completely different solutions to European and world problems are needed, especially since the essence of the problems themselves is changing.

During the transitional period that Europe and the whole world has entered, it is not enough to understand that we cannot continue to live under conditions of confrontation. We need constructive, creative thinking; after all, the new Europe, a Europe of political harmony and economic integration that is free of interethnic discord and disputes along its borders, will not arise of its own accord. In many countries of our continent the opinion is growing that the optimal scenario for Europe provides for a gradual but thoroughly considered development of common European institutions and structures. But that is possible only in the remote future. Right now, however, the realities—among which one must count the destabilization of the domestic political situation in the USSR, the extremely complex economic situation in all East European countries, interethnic conflicts, East-West migrational flows, and the environmental threat—are such that at the present stage we must evidently speak about the architecture of a transitional period that would enable us in the future to take a flexible approach, without revolutionary outbursts and fractures, toward realization of the European idea, whether it be a

"common European home," a "European confederation" or some other expression of it.

If the continent were divorced from the rest of the world and were developing in vitro, as it were, one might conceive the design of European cooperation as follows:

- the institutionalization of the Helsinki process and the creation of common European structures provided by the Paris Charter;
- the gradual inclusion of Central and East European countries in existing institutions, especially the EC and the Council of Europe;
- the deepening of cooperation among subregional groups, and also between them, on the one hand, and the Third World countries, on the other;
- the establishment of new subregional organizations, such as the type proposed by the Czech and Slovak Federal Republic, Hungary and Poland;
- the enhancement of the significance of specialized UN organizations for Europe.

But life is remote from ideal models. We live in an interdependent world, and Europe's future will not only be determined by the level of political culture, and consequently, the ability to understand and correctly interpret each other's interests (although we still have a long and difficult road to travel in this direction before an all-European awareness is formed based on a unified understanding of our continent's role and place in the search for responses to the challenges of the 21st century). It will depend to a significant extent on whether Europe is able to defend the basic civilization-wide values, which include, first and foremost, the philosophy of human rights. At the same time, the events of 1990-1991, especially the crisis in the Persian Gulf, but also ethnic conflicts in Europe itself, have demonstrated that these values need defending, and that Europe cannot yet get by without structures capable of ensuring its security. For a long time yet to come, Europe will need armed forces capable of preserving the peace if the need arises, and of blocking any attempt to use force.

At the same time, no serious scholar and politician will deny that the Conference on Security and Cooperation in its present form is not a guarantor of security, that appropriate all-European institutions do not yet exist, that all decisions in the framework of CSCE have been based on minimal consensus, and that the establishment of effective security mechanisms in the context of the Helsinki process will require time, patience and serious, carefully considered actions.

But by taking a closer look at existing institutions and abandoning old stereotypes and ideological and propaganda dogmas, as the new political thinking calls on us to do, we see that such structures already exist. They have been created by the integration model that was developed in the West following World War II. In accordance with that model, an economic and political framework in

the form of the EC was created, while a politico-military framework in the form of the North Atlantic Treaty Organization was formed.

For many years we ignored West European economic integration. However, it is common knowledge that ignoring the facts only exacerbates the consequences for those who ignore them. Now we have not only recognized the effectiveness of the integrative processes but are hoping for cooperation with the EC and not rejecting its assistance. I think that the time has come to change our attitudes toward the politico-military integration, too.

The first argument is that the North Atlantic Treaty Organization provided the basis on which it was possible to overcome the Germans' enmity with their neighbors. The phenomenon of Franco-German antagonism no longer exists. Young Germans and Frenchmen by tradition no longer mock one another; more than that, an era of genuinely friendly relations has arrived.

The second argument is that NATO has been capable of preventing direct armed conflicts among its members (in the recent past we witnessed an aggravation of the Greek-Turkish conflicts). There is every justification for speaking of a reconciliation of peoples that for centuries lived in a state of hostility.

The third argument is that the unification of Germany has aroused uneasiness among its neighbors. Psychologically this is readily understandable. A powerful national state capable of threatening small and medium-sized countries is once again arising in central Europe. It seems possible to solve this problem only on the basis of politico-military and economic integration that precisely defines everyone's rights and duties. May the Germans forgive me, but NATO is capable of acting as a kind of control mechanism in the event of a revival of German nationalism. That is why Poland, Hungary and Czechoslovakia came out unequivocally for a united Germany's membership in NATO, rather than for its having a neutral status.

The fourth argument is that the Warsaw Treaty Organization no longer exists, while a number of its former members have expressed a desire to become NATO members, for they see in it a guarantor of their future security. They have thereby come out, as it were, for the notion that political and military integration in the framework of NATO will represent the basis of a future system of European security.

The fifth argument is that the North Atlantic Treaty Organization is an alliance of democratic states that have demonstrated their adherence to universal human values; decisions are made on the basis of consensus (let us recall 1989, when West Germany's disagreements were sufficient to stop the process of modernizing a certain class of weapons).

A question arises: Just what is to become of our country's security guarantees? Lately a number of articles have

appeared in the Soviet scholarly periodical press and mass media whose authors voice uneasiness in connection with NATO's rather rapid evolution in the direction of a political alliance. That uneasiness is understandable, but only in part, since one must remember a fundamentally new factor—the 8 June 1990 declaration by NATO's leaders that stated that, in a desire to create a new peaceful order in Europe based on freedom, justice and democracy, they were extending the hand of friendship to the Soviet Union and other European states.<sup>1</sup>

At present a new NATO strategy is being developed in Brussels based on the premise that the USSR and the East European countries are no longer adversaries.

One may object that declarations are far from practical politics, and that there have been many times in the history of the blocs that their leaders have proclaimed a desire for peace while in reality building up armaments, that is, while seemingly preparing for war. But whatever we say now, first of all, these immense arsenals were nonetheless a deterrent factor for both sides; second, at that time we had a bloc division of our continent that for all intents and purposes no longer exists now; third, the West sees the threat not so much in our arms as in the destabilization of our internal political situation and, as we see, despite doubts, vacillations and reflections, is striving to support President Gorbachev, which was confirmed by the London meeting of the G7 leaders.

It seems that so far neither NATO, nor the Soviet Union nor a number of other East European countries are prepared, for psychological, political, economic and technical reasons, for politico-military integration. Moreover, the future of the Soviet Union itself is fairly uncertain. From every indication, it will hardly be preserved as a unified whole, while for NATO, as for the republics that leave the Soviet Union and for the remaining union, a fundamentally new situation will emerge that is hard to predict from the perspective of today, but that will inevitably have to be taken into account. In any event, for the North Atlantic Treaty Organization the question will arise of developing a special mechanism of security guarantees for the USSR, as was done during the "two plus four" negotiations on the future status of unified Germany. It may make sense to think about forming multinational European forces that would guarantee the security of all the continent's countries. Without any doubt, NATO will have to modify itself and set a course of internal transformations that will eventually lead to the establishment of an all-European security system, but a system that is based on cooperation and the abandonment of confrontation, rather than on separation.

A system of confidence-building measures in the politico-military area and the creation of an overall psychological climate of trust could play a fundamental role at the present stage. In this connection one must keep in mind that arms reductions and disarmament, various verification measures, and economic cooperation are necessary but plainly insufficient conditions for creating

a healthy psychological atmosphere in the "house of Europe." Cooperation in the humanitarian sphere is of key importance. That is where the solution of the fundamental problem of European development—the problem of trust—lies. After all, Europe is not simply a geographical concept but a system of values and ideas that have contributed to the common legacy of humanity. As F. Mitterand rightfully observed, the process of European unification is damaged by the underestimation of the cultural sphere. He believes that it is necessary to develop a recognition of the unity of the European cultural legacy. "It is precisely a common culture and common values that constitute an extremely powerful binding force for all of Europe, including the EC and the Central and East European countries."<sup>2</sup>

All the European countries' political figures without exception have acknowledged the factor of European cultural identity. Its basic elements: the social idea (born in ancient Greece); the Roman concept of a state based on the rule of law; Christianity; the ideas and practice that became widespread during the age of the Renaissance, especially the free exchange of information and specialists among the major European university centers, the existence of cultural centers (such as those that existed in Heidelberg, Vienna and Naples), and the study of each other's languages as a symbol and means of intellectual exchange and a manifestation of European cosmopolitanism; and the concept of human and civil rights (born of the Great French Revolution), which allowed B. Franklin once to say that "every person has two homelands: one—his own, and the other—France."

The free exchange of ideas and information, cooperation in science and culture and in the humanitarian sphere as a whole, and the implementation in the East European countries of the basic concepts that define acknowledgement of the European system of values are forming a basis for mutual understanding, the erasure of old stereotypes, and consequently, the creation of an atmosphere of trust.

The Helsinki process has become a prerequisite for the creation of a single humanitarian space. After all, for all intents and purposes the Helsinki Final Act was the first document in which respect for human rights was listed among the basic principles of political cooperation among all the European states, thanks to which a prospect opened up for the formation of a common European political culture. A significant role in the creation of a new psychological climate on the continent and the activation of European cooperation in the sphere of culture, human rights and environmental protection belongs to the Council of Europe.

In the context of the ending of the Cold War, stable dialogue between the United States and the USSR, and the development of the integrative process in Western Europe and of the reform process in Eastern Europe, the role of the CSCE as one of the chief mechanisms for resolving open questions of international relations in Europe is assuming special importance. Whereas its

essence used to be, in the figurative expression of L. Achimovich, "duel and deal between blocs," now this orientation must give way to close cooperation, which must include the military component of European security (since interbloc negotiations on disarmament in Europe are no longer possible in light of the self-dissolution of the Warsaw Pact's military organization, arms reductions must become a continuous, all-European process). The Paris Charter contains a detailed program for institutionalizing the CSCE process. However, no new institution is capable of solving the problem of European security by itself. The development through common efforts of a joint strategy for ensuring security and developing cooperation is of critical importance; proceeding from that strategy, it will be possible to work to create a mechanism for ensuring its implementation.

In summing up what has been said, I would like to note that the architecture of Europe for the transitional period can be depicted as the interaction of modified politico-military structures of the North Atlantic Treaty Organization with the East European countries (unquestionably, on the condition that the USSR's security is guaranteed; otherwise the risk could arise that the present detente process would be reversed), with all-European institutions established by the CSCE process, and with existing West European institutions in the area of economic integration and the Council of Europe as the creator of an atmosphere of trust. Won't this be contrary to the state interests of the Soviet Union? If one proceeds from the assumption that these interests lie in the revival of the economy, the further democratization of society, the extinguishing of hotbeds of ethnic tension, and in becoming a worth partner of our European neighbors and of all members of the world community, it will in no way be contrary to those interests, for our country has a stake in a stable Europe of peace and cooperation, and as of today the only existing stabilizing structures are the EC and NATO; the rest are only yet to be created.

In the future, it seems, the significance of the military factor in providing European security will decline even further. In the event that this process becomes a long-term trend, I see the architecture for a new Europe, the construction of which will take decades, as a three-story building; on the first floor is European cooperation in the area of culture and human rights; on the second—the structures providing for economic cooperation on the basis of integration; and on the third—all-European institutions that ensure the continent's security in all of its aspects (military, political, economic, environmental, informational, etc.).

#### Footnotes

1. NATO REVIEW, No 3, 1990, p 28.
2. "Europa—Unsere Zukunft," Herford, 1989, p 47.

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**EC Options at Maastricht Meeting Viewed**  
*92UF0281A Moscow SOVETSKAYA KULTURA*  
*in Russian No 12, 30 Nov 91 p 3*

[Article by G. Gerasimov: "Who Is the Third?"]

[Text] The ancient Dutch city of Maastricht, on the border between Belgium and Germany, will soon enter modern history as well. A summit meeting of twelve nations of the European Community will take place there during 9-10 December to examine a draft of their political and economic union.

The Maastricht process, similar to the Novo-Ogarevka one, is taking place not without its difficulties and forecasts by observers are contradictory. The future union will either become a federation with a common defense and foreign policy, or the process will limit itself to a more flexible union in which each will determine the degree of its own independence. The overall mood, however, is Pan-European. There is not a trace of the former "Eurosclerosis" coupled with "Europessimism," with oblivion marking the pre-de Gaulle "Europe of nations." Europeanism dominates today. Lances are broken only in Britain where the conservative party has a vociferous anti-European wing which also includes Margaret Thatcher. With this exception the citizens of West European countries, by contrast with our sovereign states, are looking beyond national horizons, envisioning a common future ahead. In an editorial the American newspaper *The Wall Street Journal*, expresses surprise with the calmness of the Europeans at a moment when their political landscape is changing in a dramatic way. Probably because they consider the forthcoming changes as being for the better. The speculative philosophy about "the decline of Europe" was replaced with one of prosperity.

A unified market with a single currency and the overall mechanism for adoption of political decisions are equivalent to a revolutionary transformation of Western Europe into a great power. It will be equal to USA and Japan, and will take the place of a third superpower which is being relinquished by our disintegrating Union.

The process of mutual grinding down in the economic field will be painful for those who are weak, some will fail inasmuch as they produce something that is worse or more expensive than the neighbor, but in the final result each country will find that which it does better than others. In order to facilitate reconstruction the strong are already helping the weak with the aid of various concrete programs.

They want to see Maastricht as a landmark, calling it "an encounter of Europe with its fate." The president of France Francois Mitterrand believes that the only alternative is to return to the 19th Century "without rules and laws." It is only through the European Community, Mitterrand adds, that France can "talk on an equal footing with the USA and Japan." While the German Chancellor Helmut Kohl warns: "If Europe does not take

advantage of this historical chance now, it will be necessary to wait a whole generation for the next one."

Reasoning to the effect that "if we do not get more Europe we will get more Germany," are in consonance with his declaration. What is meant is that an independent Germany may turn out to be the dominant power in Europe and will negotiate with Russia and Ukraine over the heads of others. While as part of the United States of Europe, Germany will be hobbled.

Observers believe that the appearance of the United States of Europe disturbs the USA from the viewpoint of competition on world markets. Zbigniew Brzezinski, for instance, believes that Maastricht will become "the symbol of a very important challenge thrown at the United States by Europe." Officially, however, the USA cannot fail to support European integration as a path toward European security and economic progress.

Countries of East Europe would like to find themselves in the West now. Just as America had its Wild West, so does Europe have its Wild East at present. Poland, Hungary, and Czechoslovakia have recently initialed an agreement regarding association with the EC—after France finally agreed to remove its protectionist objections against the additional export of meat from those countries on the condition of financing of an additional export of meat to the Soviet Union by the Community. Therefore the shortcomings of our animal husbandry helped three of our neighbors to join the West (agreements will be signed on 16 December). In these three countries the agreements are regarded as a first step toward full integration with Europe.

Let us employ the very frequently and very recently used metaphor to say that—the building of the European house is proceeding while we are destroying our own.

**British Consortium to Help Develop Soviet Food Industry**

*92UF0260A Moscow TRUD in Russian 22 Nov 91 p 3*

[Article by TRUD correspondent A. Burmistenko: "Let's Start With Creation of Model Farms"]

[Text] Cautious optimism coupled with sober estimates that, on the whole, is the way it is possible to characterize results of the familiarization trip to Moscow and St. Petersburg by a delegation of leading businessmen of the British food industry. Head of the delegation, Chairman of the British Food Consortium, Sir Ronald Macintosh shared his impressions of the trip with a group of Soviet journalists in London and mentioned those recommendations on the participation of British business in the modernization of the Soviet food sector which he submitted to Prime Minister John Major.

Sir Ronald stated that plans of British food companies may be divided into short-term and long-term plans. What can be done as soon as possible and for which there is basic agreement is the creation, with the aid of the



British government, of two operating, so to speak, model-demonstration type of farms with a broad profile not far from St. Petersburg and in the area below Moscow. Of course, they will not resolve the food problem in those cities (even though they will supply a significant amount of food products), but will become an outstanding school for farmers from other regions of the country.

In the long term British companies are ready to participate in large-scale modernization of all links of the food chain—from packaging, transportation, and storage to the processing of agricultural products. Such participation, however, must be conditioned by certain resolutions at the governmental level both in Britain and in the Soviet Union, Sir Ronald Macintosh noted. Among them he cited, first of all, export guarantees, a kind of insurance by the British government of private capital investments against "political risk" with consideration of the overall instability in our country, as well as the possibility for the British companies to repatriate their profits in one form or another in convertible currency. Most of the companies will be prepared not to repatriate profits for the first five years, but guarantees of the fact that they will be able to do so in the future are very important to them. Sir Ronald named the third mandatory condition as the repeal of price controls and establishment of market mechanisms for price formation, noting, however, that judging by the intentions of Russia and the other republics, this problem will disappear on its own in the near future.

Sir Ronald considers that we must be realists and understand that large supermarkets of the Western type will not appear in the near future in Moscow and St. Petersburg since there is simply not enough of an assortment of goods for this (the standard inventory of such a supermarket comes to 16,000 to 20,000 items of food). It is, however, possible to attain a very rapid stabilization and normalization in the delivery to the population of at least a basic selection of food items.

If the conditions mentioned above are observed the contributions of British and other Western firms could already be very perceptible in one-and-a-half to two years. In particular he cited an interesting observation. At one of the Moscow food supply bases the delegation was informed that they utilize around 300 trucks there to distribute the food. One of the specialists with the delegation right away calculated that just 45 vehicles could handle the same volume of work in Britain. Of course, they must be a different kind of vehicle with a different organization of labor, but a big rise in labor productivity in various operations can produce a phenomenal effect.

At the same time the chairman of the British Food Consortium considers that no Western investments will help if there is no sharp increase in the overall volume of agricultural production and this, in turn, is a task primarily for the Russian farmers and farmers of other republics. Losses in the subsequent links undoubtedly do

occur, and a struggle against them must be waged, but it is impossible to write everything off to losses. We are clearly faced with an overall shortage of all types of agricultural goods because of low harvests, poor milk yields, and generally low productivity of labor.

In responding to my question as to why the total harvest of grain-producing countries of the EEC of 165 million tons is considered excessive whereas a Soviet harvest of 180 to 190 million tons (with approximately the same population) proves to be inadequate and requires purchase of grain abroad for billions of dollars, Sir Ronald, smiling, said: "At least a partial explanation consists of the fact that it is necessary to treat Soviet statistics with caution. I told Prime Minister Major that I could not cite a figure on how much cattle feed they need because there is no reliable statistic. During our trip we repeatedly heard the expression—'propaganda wheat'—that is, the way I understood it, a kind of wheat that does not exist in elevators but already exists in statistical reports."

The general conclusion of the delegation following the trip to Russia was formulated by Sir Ronald Macintosh as follows: "It is possible to regard the food situation in Russia over the next five to seven years with considerable optimism if the program of market reforms is carried out to the end, if Western technology and methods of agricultural production are actively utilized, and if a certain level of political stability is established in the country."

As they say, let us hope to God that these "ifs" turn into reality...

#### **British Communist Party Final Convention Reviewed**

*92UF0279A Moscow IZVESTIYA in Russian 26 Nov 91 p 3*

[Article by IZVESTIYA correspondent A. Krivopalov: "Communist Party of Britain Held Its Last Convention"]

[Text] Yesterday there were 4,600 of them. Tomorrow, perhaps, a little more or less—that is unknown. The convention of the British Communist Party voided its old charter which existed since 1920. The very name of the party now belongs to the past. From now on it will be known as Left Democrats.

The historical period that stretches over seven decades, from the autumn of 1917 when Bolsheviks took over power in Russia, has been brought to a close. Recalling how the British were taught the fundamentals of politics in the established Marxist way, the newspaper Guardian lists the names of commissars who came from the General proletarian center to Britain. One of them was named Borodin. But in London he presented himself as George Brown. British authorities soon deported him from the country. Petrovskiy, who posed as A. Bennet, was sent to replace him. He experienced the same fate as his predecessor.

The Communist Party of Britain subsequently won a measure of authority in the course of the general strike, when it was specifically its activists who became the primary victims of political persecutions. But it did not become a party of the masses either then, in the twenties, or later, nor could it apparently become one. The maximum growth in the influence of that party occurred during the Second World War. In 1945 it had in its ranks not 12,000 as in the late thirties but 56,000 persons. At that time two communist deputies were even in the House of Commons and there was a total of 200 party members elected to various local government organs.

Not long before the 43d and final convention of the British communists, materials appeared in the local press which had a negative influence on the mood of the British in the ranks of this party. R. Falber, who at one time was the assistant general secretary of the communist party, publicly confirmed: We really did receive financial assistance from Moscow.

This old functionary allegedly received money himself during the period between 1950 and 1979. Up to 100,000 pounds sterling were transferred annually to the party. The British communists received them through representatives of the Soviet Embassy. The secret support of the party by Moscow was supposedly known only to four persons.

During the final convention the delegates-communists tumultuously discussed the question concerning their future. If there was any unanimity it was manifested only in the document which expressed their attitude toward those notorious financial doles: "There is no justification for that which has happened." One third of the delegates, more than 70 persons, voted against the repeal of the old charter. They demonstratively walked out of the meeting hall.

Anyone not wishing to remain with the Left Democrats has a choice. It is possible to join one of the very small groups with a communist orientation, which compete with each other in "Marxist purity." There are apparently six of them.

### **All-Danish Shipping Firm Set Up in St. Petersburg**

92UF0246A Copenhagen BERLINGSKE TIDENDE  
in Danish 12 Nov 91 p 16

[Article by Gregers Moller: "Danish Shipping Firm Established in St. Petersburg"—first paragraph is BERLINGSKE TIDENDE introduction]

[Text] Shipping: One of the first entirely foreign companies which has received permission to set up in St. Petersburg is owned by the Danish company Poul Christensen, Inc., according to director Bent A. Jeilman, who has great expectations about the Russian market.

Bangkok—The shipping firm of Poul Christensen, Inc., is one of the first companies in the world to have

received permission to set up a private, entirely foreign-owned firm in St. Petersburg under the new rules.

"It's incredibly exciting," said Jeilman, Poul Christensen's director and owner. "Even if it might have been easier in six months, it was undoubtedly worth it to be first."

Initially the new Poul Christensen subsidiary in St. Petersburg will buy and sell ships. Somewhat further in the future Jeilman does not exclude the possibility that he would set up a container business in Russia, but this, in any event, would presumably be via a joint venture with a local firm.

### **Offshore Firm**

Jeilman received permission last week, the same day he was en route to the airport to fly to Thailand where he is currently negotiating the opening of a new subsidiary.

Together with the Norwegian offshore firm of International Oil Field Services, he recently founded a joint venture company in Stavanger. It will sell new, presumably more efficient, oil drilling equipment, for which Jeilman has bought the patent rights, together with all the world's existing 32-bore stocks.

The new company in Thailand will follow up on this activity in the offshore sector, in which Poul Christensen has not previously been active.

The opening of the new office in St. Petersburg is a triumph Jeilman did not come by easily. Months ago he started threading his way through the bureaucracy to those agencies that could give him permission. Then came all the practical problems.

"The language is one of the big problems. I had to hire a former KGB employee as an interpreter who both spoke and wrote perfect American English," he said with a big smile. "There's a huge market in Russia, a fantastic market," Jeilman said expectantly.

"Just now it's hard to find out who owns which ships. They're all the state's ships, but the question is who in the hierarchy has the authority to buy and sell an individual ship. The officials who once dealt with this area have scattered to the four winds," he said.

### **Half-Finished Ships**

As an example of the prospects in this field he mentioned a half-finished aircraft carrier and a half-finished floating hotel. Both ships have been thrown into the water to make space for future new buildings. "The aircraft carrier lacks metal sheathing and its guns have not been mounted. Unless they can be sold to South America or Israel, I think both of them will end up being sold as scrap metal," Jeilman predicted.

One opportunity in particular would be to buy a Russian ship and exchange its motor with, for example, a used B&W MAN or Shulzer motor. That would immediately

give the ship an entirely new market value, because with one stroke it could be repaired anywhere in the world.

"If we had started early enough, then 10 years ago we could have established a company together with the producers of the Russian motors and established stockpiles in North America and Singapore," Jeilman added.

#### Knowledge of Thailand

Setting up the new company in Thailand, Jeilman expects, will fall into place in the next few months. That it can go so quickly is due to Bent Jeilman's already good knowledge of Thailand, where he was first assigned as an East Asian Company [OK] employee in 1965. He then worked for two years in Singapore and two years in Hong Kong before returning to Bangkok in 1973-76. He was in Bangkok for the third time in 1982-86, at which time he was the head of OK's shipping division. Jeilman left OK in 1987, when he became the head of CMB—Compagnie Maritime Belge.

In that capacity he was responsible for the purchase of OK's West Africa service, Wormann, and the Deutsche Ostafrika Line. This aroused a certain amount of attention, since it was the first time OK had sold any of its ships and shipping activities as a "package."

#### Takeover

His involvement in the Poul Christensen company began four years ago, when Finn Christensen, then its owner, asked him to be the chairman of the company's executive board. Since then Bent A. Jeilman bought himself a share of the company. So, generally speaking, he merely chose between taking over the firm or losing his investment when, in July of this year, Finn Christensen unexpectedly died prematurely. "I bought the firm at the worth as shown by the balance sheets. I may have fooled myself somewhat in doing so, but I couldn't have gotten out and seen it," said Jeilman about the takeover.

"It could become a wonderful business. There are lots of opportunities in Thailand for a small firm like ours which can move faster than the OK and Maersk, for example, and that is what I wanted to take advantage of," he said, and added: "Shipping is the only thing I know. If I don't know it now, I'll never learn."

#### Unveiling of Monument to Soviet Soldiers in Finland

92UF0257A Moscow PRAVDA in Russian 18 Nov 91  
p 4

[Article by PRAVDA Correspondent Yu. Kuznetsov, Helsinki: "Memory Compels: A Memorial to Soviet Soldiers Has Been Unveiled on Finnish Soil"]

[Text] Among the forests and lakes of central Finland, approximately 200 kilometers north of the capital and 60 to the northeast of Tampere is the small village of Orivesi. A Soviet prisoner of war camp was located not far from it during the last war. Here the Finns built a

railroad branch-line near the village of (Lyangelmyaki), using prisoners to construct it. Conditions were severe and many of our compatriots did not endure and they became ill and died from infections, physical and nervous exhaustion and other tragic circumstances. They were buried right there in the woods, near the barracks.

Later, in 1945, the Finnish authorities accommodated a Soviet government request and placed memorial obelisks at all known sites (more than 70) where our servicemen were buried in Finland. They were, so to speak, typical, cast from gray concrete. At that time, one of them was placed here in (Lyangelmyaki). The half-meter high pyramid has sunk into the ground and today the Russian words written in black paint that have been darkened by time are clearly visible in the center of a star cut from tin on the front face: "177 Soviet servicemen were buried here."

Such was the old epitaph until recently. Last Friday a new memorial appeared here in which the concrete obelisk became like a distinctive "heart" and an integral part. It came into existence thanks to the combined efforts of good hearted people on both sides of the border who respect the memory of the past.

It all began here at the initiative of members of the local old Russian emigrants. Their association, The Russian Club, has already been active in Tampere for several years. Its president, B.A. Verikov, spent a long time in the archives gathering information about the servicemen (as it turned out more than 64,000 of our soldiers ended up in Finland, of whom nearly 18,500 were buried in the soil of Suomi). He had an idea; to build a cemetery in Lyangelyamki and to also transfer the remains of those prisoners who died at the neighboring camp in (Rotiala) to it.

Finnish authorities supported this proposal, including with material support. The Soviet association "Rodina" [Homeland] also made a large contribution to the practical implementation of the idea—having learned of the initiative of our fellow countrymen living abroad, our organization offered its assets and abilities and enlisted the authors' collective headed by Sculptor A.F. Dolgikh to create the monument.

And now the new memorial is ready. Four three-meter pylons made from polished gray granite surround the old obelisk in a cruciform, placed edgewise to it. The names of our soldiers who died in 1941-1942 are on the sides of the pylons. The pylons are joined at the top by cross-shaped horizontal beams under which a bronze bell is suspended in the center.

The memorial was unveiled at a great public gathering, our fellow countrymen, workers of Soviet organizations in Finland, those people who arrived from Moscow, but for the most part Finns, residents of Orivesi, Tampere, Lyangelmyaki and Helsinki. A local Orthodox Church priest consecrated the memorial (you see, those interred here were mainly Slavs, that is, Russians, Ukrainians and Belorussians). A small church choir could be heard.



Then wreaths and flowers were laid—from the relatives of those buried here, from The Russian Club, from Rodina, from provincial and city leaders, from the Finland-Soviet Union Society, from our embassy and from the Finnish Ministry of Education. A. Buorinen, a representative from that ministry, stressed that not just the relatives of the dead but everyone living needs to preserve the memorial. This memory should serve as a warning against the outbreak of a new war.

"We declare before those who have fallen," A. Buorinen said, "that we will do everything to prevent the horrors of war from being repeated anywhere and to tell people the truth about it."

Among the speakers at the unveiling of the memorial were USSR Ambassador to Finland V.I. Aristov, representatives of The Russian Club and Rodina, local authorities and local society, and also relatives of the dead.

We talked with some of those who gathered at the clearing near the memorial. Erkki Akhonen, a Helsinki resident, came to visit his brother and stayed to help him; he is a construction worker and he directly participated in the memorial's erection.

"This is a matter of conscience and naturally neither time nor effort was spared," Mr. Akhonen said. "It is generally customary in our country to respect graves, to take care of burial sites, and all the more so those of soldiers. It does not matter that Russians lie here or how they got here. Let the earth accept them as if they were its own..."

Local inhabitant Vyaino Fogti expressed the same opinion:

"Look how many people have gathered. This is because we have set aside and revere this site. For us the Russian soldier's monument is an honored place. And not just because a Christian cross has been carved into the granite..."

### **Soviet-French Venture Representatives Discuss Hard Currency Problems**

92UF0183A Moscow ARGUMENTY I FAKTY  
in Russian No 44, Nov 91 p 4

[Unattributed interview with Soviet business representatives; place and date not given: "Spend Money Wisely"]

[Text] Today, when many enterprises are actively moving with their products onto the foreign market, the question is not only how to earn hard currency but also how to spend it sensibly.

This is pondered today in ARGUMENTY I FAKTY by A. Arakcheyev, deputy chief of the USSR Tsentosoyuz Glavoptposyltorg, V. Skakun, general director of the

Kiev branch of the Vneshtekhnika All-Union Association, and S. Belyayev, representative of the USSR of the French Alliance company.

SKAKUN: When our entrepreneurs move onto the world market, they encounter first and foremost the problem of choice of supplier and commodity. The supplier must be a dependable firm, the quality of the goods, high, and the price, reasonable.

We, for example, have chosen the Alliance firm, a supplier of consumer merchandise. The point being that the results of a study of the prices of leading West European trading companies testify that prices in the Alliance catalogue are 30-40 percent lower than those of other firms.

ARAKCHEYEV: Since it is a question of prices, permit me to add that it is very important when a Western partner endeavors to take account of the interests of Soviet clients. This is manifested with Alliance in the fact that the company is constantly seeking new forms of discounts and even versions of the sale of some commodities for rubles.

BELYAYEV: As our experience of work with Soviet organizations has shown, they encounter primarily the problem of payments. And these problems are connected, what is more, merely with the fact that many customers are unfamiliar with the rules of the drafting of currency payment papers, have an inadequate idea of what kind of guarantee may be demanded of the bank and the seller and so forth. And we will readily help them, particularly those who live and work far from Moscow.

ARAKCHEYEV: Problems connected with freight insurance, quality control, acceptance of the commodities and, finally, the entire set of problems connected with customs formalities may arise in the course of business. Of course, the Glavoptposyltorg helps resolve all these problems.

BELYAYEV: Since you have mentioned insurance, incidentally, I have to call your attention to the fact that the Alliance firm assumes the expenditure for freight insurance not only for the entire route up to the Soviet border but also during shipment on the territory of the USSR, even in the event of the purchaser himself effecting delivery of the merchandise, what is more.

SKAKUN: Foreign trade organizations prefer, as a rule, to purchase, in accordance with a commission of their clients, one or two commodity brands, three or four at most.

In this respect the advantages of the Alliance firm are obvious—its catalogue offers over 3,500 commodities.

BELYAYEV: Perhaps I can reveal the secret of our firm's success: Alliance has united the best-known manufacturers in their fields—such companies as Christian Dior, Johnson & Johnson, Philip Morris, Konica, Sanyo and many others, which are, as the management of the

firm intends, not simply suppliers but equal partners. Thanks to this approach, the responsibility of the manufacturers for the quality of the goods and delivery times, in short, for the Soviet customer being satisfied, increases even further.

**SKAKUN:** The vast majority of producers and exporters establishes for the customer, as a rule, a restriction in the form of the minimum size of a commodity consignment. You cannot, say, order 10 tape recorders—you must necessarily take a whole container. But the Alliance firm does not have this restriction: It is not at all obligatory to order, for example, a whole container of pants, you could limit yourself to a single pair.

**ARAKCHEYEV:** You, Vladimir Nikolayevich, have spoken about the system the Alliance firm has in practice created for trade with our country. And since we have started speaking about the advantages of work with this firm, I would like to mention certain further details.

Radios and television receivers and home electronics have been purchased in various regions of late, but this costly equipment very often soon malfunctions.

As far, however, as the Alliance firm is concerned, it supplies intricate household equipment specially adapted for the conditions of operation in our country—provision is made even for such a seemingly trifling matter as the translation of user's instructions into Russian. And, of course, account has been taken of the need for the creation on the territory of the USSR of a warranty and after-sales service system.

From the editors: Following the publication in ARGUMENTY I FAKTY No 16 for 1991 of material on the Alliance firm, the editorial office has received many letters and calls requesting contact points of the firm's office in the USSR. The telephone number of the firm's office in Moscow is 925-69-36, telephone of the Glavoptposyltorg: 430-24-29.

### **Elf Aquitaine to Prospect for Oil in USSR**

*PM1411151591 Moscow IZVESTIYA in Russian  
12 Nov 91 Union Edition p 7*

[Correspondent Yu. Kovalenko report: "New Deal of the Century. French 'Gold Diggers' Will Prospect for and Extract 'Black Gold' in Russia and Kazakhstan"]

[Text] Paris—An impressively long time passed between the conclusion of a general agreement on cooperation between the Soviet Union and the French oil company Elf Aquitaine and the signing of the contract. It took nearly 18 months to achieve. (The deal was also delayed for a couple of months owing to the August putsch.) Now, it seems, all the difficulties are behind us. Expert appraisals and contra-appraisals have been produced. All the articles have been agreed.

"We are talking about two contracts that are unprecedented," Maurice Mallet, Elf Aquitaine's general

director for links with the East and China, who has worked with the Soviet Union for 17 years, stresses. "They envisage cooperation in the spheres of prospecting for and extracting oil. The first, which will be signed before the end of this month in Moscow, concerns the Volga region from Saratov to Volgograd. Therefore from 1 December we want to begin prospecting there. The second contract, which we hope will be signed at the beginning of next year, provides for oil prospecting in the Aktyubinsk area of Kazakhstan."

All oil resources, M. Mallet assured me, will remain the property of your country, national wealth will not be sold off. The prospecting and extraction work will be financed by the French concern, and is initially estimated at between \$2-3 billion. Elf Aquitaine is supplying its technology and, if necessary, will use Soviet enterprises, our transportation, and even the Army, including its aircraft, as subcontractors to transport pipes and other materials. In short, the French are constantly stressing, the Soviet side is a fully equal partner and this pooling of efforts will bring mutual benefit.

As far as I can understand, Elf Aquitaine has no particular doubts that the search for "black gold," which it will undertake together with Soviet specialists, will ultimately be a success. Both sides have agreed to split the oil they extract as follows. If oil extraction is insignificant, the Soviet Union will get 60 percent, and the French 40 percent. But our partners are reckoning on an annual extraction of around 20 million tonnes under the first contract and 30 million tonnes under the second. In this case we get 85 percent and they get 15 percent of the oil obtained.

In naming a figure of 20-30 million tonnes, we are proceeding from modest appraisals of the reserves, Maurice Mallet notes, but it is also perfectly possible that we will find really large deposits. This is probably why the contract is being concluded for 30 years with a future renewal option.

In order to avoid any misunderstandings, the French are counting on the Russian authorities promulgating a special decree on this contract. M. Mallet had talks about this in Moscow a few days ago with Russian Vice President A. Rutskoy, and all the indications are that he secured his support. We are also setting up a company called "Interneft" to undertake all the work, the Elf Aquitaine director told me. This will be the main French partner.

Is the search for oil in our own underground storehouses really such a difficult business? According to M. Mallet, the Soviets and the French have different ways of going about it. The former drill a lot of wells and operate by a sort of "poking around" method, and since each well costs about \$30 million to drill, this "poking around" is extremely expensive. The latter, however, by using the very latest technology, know almost for sure where to drill the well.

What income will we get from the oil that is extracted? The arithmetic is simple. The cost of extraction, according to calculations made by the French, will be \$1-2 per barrel. Then \$2 more for transportation to Novorossiysk. A barrel costs \$23 on the market. The profit is therefore \$19-20.

However, it is still too early to be calculating profit. Elf Aquitaine estimates that the fall in oil extraction will continue in our country. Whereas in the past our annual extraction stood at around 610 million tonnes, in 1992 this figure will drop to 470 million. And without Western help there is no way we can get out of the crisis. Realistically speaking, however, only the largest concerns with the potential to invest billions are able to help us.

"Elf Aquitaine," the largest industrial group in France employing over 70,000 people at its enterprises, is one of these. It has around 600 branches in various countries of the world. The state holds 54 percent of its capital, and the rest belongs to private shareholders, who number hundreds of thousands.

The French hope to begin extracting oil in the two new fields in Russia and Kazakhstan in 1994-1995. But this does not mean that we can reckon on an extra 20, 30, or even 50 million tonnes in a few years' time. We should not hurry to extract as much oil as possible all at once. Oil extraction should be stepped up gradually. Otherwise we might "louse up" and encounter serious problems, which was what happened, M. Mallet believes, in Tyumen.

In developing the new fields, Elf Aquitaine is as always taking a degree of economic risk. But this is not stopping the company, because this is an inevitable part of enterprise. Thus in 1981 Elf Aquitaine invested around \$300 million in looking for oil in China, found some, but did not extract it because the recovery would have been too costly. However, political risk and the instability associated with it is a far bigger danger.

Having accumulated plenty of experience with us, Elf Aquitaine intends, as its president and general director Loik Le Floch-Prigent indicated to me in an interview last year, to play the role of a locomotive "pulling" other firms that belong to this industrial group into the Union, in particular firms engaged in pharmaceuticals, cosmetics, and consumer goods. Elf Aquitaine's intentions have not changed since then.

#### **IZVESTIYA Editorializes on Honecker Extradition**

*PM2511151591 Moscow IZVESTIYA in Russian  
23 Nov 91 Union Edition p 10*

["Editorial Viewpoint" article: "Honecker Affair: According to Law and Conscience"]

[Text] IZVESTIYA has received a letter, the writer of which, talking about humanism, opposes Erich

Honecker's being handed over to the German authorities. That's an individual case. But there is a big social problem lurking behind the lonely figure of the deposed idol that has perturbed our already split society: How are we to act—"in accordance with our conscience or in accordance with the law"?

For decades we lived in conditions where this alternative was considered quite normal and did not seem monstrous at the level of mass consciousness—let us be frank and acknowledge this. Yet in a rule-of-law state the primacy of law in both domestic policy and international affairs is axiomatic. Regrettably, we are still only just starting the "Road to the [Shining] Temple," removing not only the chronic obstructions, but also the "mines" laid quite recently.

Take the saga behind Honecker's appearance in the Soviet Union. How ingrained is the devil-may-care cynical attitude to international law, public opinion, and, last, to their own honor in those who provided him with a Soviet military aircraft and organized his flight from the FRG. But the fact is that these concepts simply did not exist for these people.

Everything indicates that, typically, the former GDR leader, who thought he could agree to the humiliating flight, also felt no inner dismay at his involvement in our legal anarchy. It did not even occur to him to apply for political asylum, as is the custom worldwide. He has only done this now when the question of his extradition has become a real one.

Respect and, moreover, reverence for the norms of international law is an urgent necessity for all of us, particularly because of today's geopolitical realities: A "unified, powerful" state has become a confederation of sovereign states before our eyes. So, today we have to start to create the kind of relations between these states precluding fresh conflicts and disputes and eliminating existing seats of tension and ethnic strife.

There is every reason to think that E. Shevardnadze's joining the leadership of the Ministry of External Relations will provide the impetus to step up policy in this area and formulate a civilized code of behavior.

At one time in the depths of the totalitarian gloom Solzhenitsyn's appeal to his compatriots boomed out like a supreme moral imperative: "Do not live by lies!" With regard to international relations that means respecting not only your own law but that of others.

#### **1952 Downing of Swedish DC-3 Admitted**

*92UF0258A Moscow IZVESTIYA in Russian 20 Nov 91  
Union Edition p 4*

[Article by IZVESTIYA Correspondent M. Zubko, Stockholm: "The Bitter Truth About the Loss of the DC-3 Aircraft: Reaction in Sweden to the Admission of the Soviet Side"]

[Text] "The DC-3 Did Not Violate the Soviet Border", "The Soviets Shot Down the DC-3 Over International Waters"—Sweden's morning newspapers placed these headlines and articles on their front pages.

Yes, one of the problems that has cast a pall over Soviet-Swedish relations during recent years past has finally been resolved. The truth has turned out to be bitter: local newspapers cite our Ministry of Defense statement that a Swedish reconnaissance aircraft did not violate USSR airspace but was shot down by a Soviet fighter on June 13, 1952 over international waters.

But it is the truth that all of us—both the Soviet people and the Swedes—needed to have in order to cleanse our mutual relations of the burdens of the past, from the legacy of the Cold War and from the times of Stalin. Without such a cleansing, we cannot have totally sincere and genuine good-neighbor relations between our states.

The Union Ministry of Defense admission caused understanding in Sweden. At a news conference that took place in Stockholm on Monday, Swedish Prime Minister Karl Bildt announced that Moscow's actions inject "new life

into our relations." He recalled that the long-ago event had occurred "in the coldest year of the Cold War" and "in the most erratic year of Stalinist times." The war in Korea had also exerted its negative influence on world politics of those years, he said.

And here they also note the role of the press, including the Soviet press, which during the past year had persistently demanded clarification of the fate of the DC-3 crewmembers who had become casualties of the Cold War.

So, clarity was finally introduced into the matter of the Swedish reconnaissance aircraft. But we will not forget that it is far from the only thing related to the removal of "barriers of the past"; several other problems await their own resolutions: the fates of Swedish Diplomat Raul Wallenberg, who was arrested in January 1945 in Budapest, and of Swedish Spy Stig Berling who, as they suggest here, escaped from prison in the USSR, and also the multi-year history of the violations of Swedish territorial waters by foreign submarines which the Swedes say must be Soviet.

**Victorious Serbia Viewed as Loser***92UF0272A Moscow IZVESTIYA in Russian 23 Nov 91  
Union Edition p 10*

[Article by A. Ostalskiy: "Defeat"]

[Text] After several months of desperate and fierce resistance, which was doomed from the start, Vukovar has surrendered. The city is ruined and has almost been reduced to ashes. Dubrovnik and other Croatian cities have also suffered colossal damage. This is a war to the finish, and the so-called Yugoslav People's Army (Yugoslavia no longer exists, and this means that it cannot have any army at all, much less a people's army) already controls around a third of Croatian territory. The Serbs can celebrate a victory.

But what should they celebrate? The fact that a beautiful country has been destroyed and is doomed to suffering, bloodshed, and poverty? The fact that the peaceful coexistence of its different nationalities, separated by the blood that has been shed and by the hatred that has reached incredible proportions, will be impossible in the foreseeable future? It is difficult to find the guilty parties in inter-ethnic conflicts, but if someone has to bear most of the responsibility for this tragedy, it is the Serbian generals and Serbian leaders—the former communists who deliberately relied completely on force to settle the issue. Furthermore, this choice was made long ago, when the full-scale war that is going on today still seemed inconceivable to normal people.

But this is the reality: the charred ruins of buildings and the hundreds of bodies of civilians, including children, in the streets of Vukovar. Brutality begets brutality, violence evokes violent reactions, and hatred begets only hatred.

From the standpoint of reason, it is difficult to even understand what the Serbian generals wanted. Yes, they have already seized a third of Croatian territory. They will go on to conquer more: Their military advantages are indisputable. They could occupy all of Croatia and burn its capital to the ground, but do they have enough strength to maintain an occupation regime? Are they strong enough to combat the inevitable partisan movement, withstand the general hatred of the population, maintain huge concentration camps and prisons, and so forth? Do they understand that no one in today's world is likely to want to have anything to do with this kind of Serbia, with the possible exception of someone like Saddam?

We hope this choice will not be made in Belgrade, but the alternative also looks bad: If Croatia is not occupied, it will set up a government hostile to Serbia right next door. And even if there had been the slightest chance of preserving Yugoslavia, at least in the form of a confederation or a union of states, recent events have completely precluded this.

When the war is over, Serbia will learn that all of the suffering, deprivation, and bloodshed was completely senseless and that it wasted its economic potential on the war and lost its international prestige in vain. The Croatians can at least comfort themselves with the knowledge that their sons died for freedom and independence, but what kind of consolation will the Serbs have? Of course, everyone usually loses in a civil war, but victorious Serbia faces the greatest defeat.

**Associate EC Membership of Poland, Hungary, Czechoslovakia Lauded***92UF0302A Moscow IZVESTIYA in Russian 27 Nov 91  
Union p 6*

[Article by Staff Correspondent F. Lukyanov: "Step Toward the 'Return to Europe': East European 'Troyka' Accepted as Associate Members of EC"]

[Text] Budapest—After lengthy negotiations that continued nearly a year and sometimes seemed to have reached an impasse, delegations from the three East European countries—Hungary, Poland and Czechoslovakia—on the one hand, and representatives of the European Community, on the other, have initialed the text of a treaty on associate EC membership for the so-called "Visegrad Troyka."

Of course, there is an immense distance, so to speak, between associate and full membership in the EC. Nonetheless, one must acknowledge the success achieved by the "troyka" in carrying out the plan put forward at a meeting in the Hungarian town of Visegrad for complete integration into European economic and political institutions. However, the very process of the integration of Hungary, Poland and Czechoslovakia with the European Community began long before the Visegrad meeting. Let me recall that back in the fall of 1988 Hungary was the first East European country to establish diplomatic relations with the EC.

And how do things stand in the most delicate area of economic integration?

Up to the very last moment the troyka had to struggle to overcome extremely stubborn resistance by a faction that saw the East European outsiders as rivals of their own peasants. At the same time, it took the troyka a great deal of effort, in the words of the Hungarian delegation's leader [I. Sas], to find a solution to the problem of the free entry of industrial goods from the EC into their markets, which would place their countries' producers in a difficult situation.

Ultimately, it seems, a compromise was found, and under the agreement, which is primarily a commercial and economic agreement and will be signed officially in several days, the troyka obtained a 10-year postponement for completely opening their markets to West European goods. For its part, the EC pledges to increase quotas on agricultural products from Hungary, Poland and Czechoslovakia entering the community's market.



For the three East European countries, which over the past year have encountered the collapse of the CEMA and USSR market, this point is probably the most important for now. According to the Hungarian delegation's leader, this pledge means reliable guarantees for Hungarian agriculture and industry, as well as for foreign entrepreneurs who intend to invest capital in the Hungarian economy.

The agreement also provides for the broadest spectrum of cooperation between the EC and its East European partners, starting with political dialogue and parliamentary and cultural cooperation and ranging up to the

establishment of free-trade zones and the standardization of legislative and financial systems. On the other hand, full membership in the EC is spoken of extremely vaguely.

For the troyka association with the EC is a symbol of their "return to Europe," for the sake of which they do not regret limiting their national sovereignty in some respects. For the West it means the possibility of attempting to stabilize the economic, social and political situation at least in these three East European countries amid a crisis in Yugoslavia, and not just there.

**Japanese Prime Minister Miyazawa Profiled**  
92UF0288A Moscow NEZAVISIMAYA GAZETA  
in Russian 5 Nov 91 p 4

[Article by Yuriy Leonov: "On Equal Terms with the Powers That Be"]

[Text] Today the Japanese parliament appointed Kiichi Miyazawa, the 15th chairman of Japan's Liberal Democratic Party, prime minister of Japan. As the head of the ruling party, which has dominated Japanese politics for the last 36 years, Miyazawa received this appointment automatically. He was a contender for the highest party and government office several times but did not succeed until he was 72. He won his last chance to become premier when he gained the support of the influential leaders of several party factions (in 1986 Miyazawa also became the leader of the party's parliamentary faction, the third largest and most influential, inheriting this position from the retiring former premier, Zenko Suzuki) and won the majority of votes in the election for party leader. He defeated (although by a smaller margin than expected) Michio Watanabe and Hiroshi Mitsuzuki, the two other candidates for LDP chairman.

We could not say that Miyazawa proved to be a good party official. He was accused of neglecting his own supporters, he was called overfastidious and crafty, and people said that he was inclined to act like a samurai, smiling broadly at his former adversaries and underestimating the importance of the sense of "fellowship" that is so characteristic of Japanese politicians. No one, however, could accuse Miyazawa of not being an intelligent man with a broad mind and the ability to think for himself. As a third-generation politician, he feels at home in the halls of government.

After graduating from the law school of prestigious Tokyo University, Kiichi Miyazawa went to work for the Ministry of Finance in 1942, where he had a promising career and became the personal secretary of Finance Minister Ikeda soon after the surrender of Imperial Japan. In 1951 he was a member of the Japanese delegation at the peace conference in San Francisco, serving as the Finance Ministry chief's personal interpreter. He was first elected to the House of Councillors—the upper chamber of the Japanese parliament—in 1953 from Hiroshima Prefecture, and in 1967 he finally won a seat in the more influential lower chamber, the House of Representatives....

He served as the minister of foreign affairs, the chief of the Economic Planning Agency, the minister of international trade and industry, the chief secretary of the Cabinet of Ministers, and the deputy prime minister, simultaneously occupying the position of finance minister.

As the minister of foreign affairs, he headed the first talks with Soviet Minister Gromyko, "Mr. No," on the issue of the northern territories. In 1989, when he was deputy premier and minister of finance in the Takeshita

cabinet, Miyazawa resigned when his secretary was implicated in the Recruit stock scandal (the boss' responsibility for the actions of his subordinates is a characteristic feature of the Japanese establishment), and the premier himself resigned a few months later.

Now Miyazawa is back on top. The support of such influential party bosses as Takeshita naturally limits the scope of his political maneuvering, but the new premier is unlikely to give up the chance to make independent decisions (giving some experts reason to predict his quick replacement). It is unlikely that any other member of the Japanese political community can compete with Miyazawa's thorough understanding of international issues and...his knowledge of the English language. These qualities put Miyazawa on the same level as the top world politicians. Furthermore, in view of Miyazawa's acquaintance with former and present European and American statesmen and his friendship with the most influential financiers in Japan and America, we can assume that he will be able to communicate on equal terms, at the very least, with today's world leaders. The American President's scheduled trip to Japan will be the first test of these contacts. There is no question that Miyazawa will take a firm stance on the maintenance and development of relations with the United States in the military and political spheres and will support the increased Asian-Pacific presence of the American Armed Forces, which should, among other things, dispel regional suspicions about Japan's own growing ambitions (Japan, incidentally, has the third largest military budget in the world, although most of it is used for military salaries). He is unlikely to make any substantial concessions in the sphere of economic relations, but he might do something to reduce Japan's inordinate positive balance of trade with America.

Miyazawa has advocated more active participation by Japan in world affairs (he once drafted and carried out the program of aid to developing countries experiencing financial difficulties), but his statements have not been particularly specific or consistent. Miyazawa has discussed the need to give the USSR more aid than before, but this is one of the areas in which he has refrained from making any specific proposals. There is every reason to believe that the new Japanese administration's (the members will probably be announced soon after Miyazawa's appointment, but it is already obvious that the new foreign minister will be Michio Watanabe, Miyazawa's election rival) attitude toward the USSR will be based on the five principles declared by former Foreign Minister Nakayama in the United Nations when Miyazawa was already being named as Toshiki Kaifu's successor. Here are these principles:

1. The resolute support of, and solidarity with, the basic guidelines of Soviet domestic and foreign policy reform and the expansion and intensification of effective aid to the USSR.
2. The dramatic intensification of multilateral cooperation with the republics, especially Russia.

3. The development of cooperation for the purpose of the Soviet Union's establishment as a full-fledged partner in Asian-Pacific affairs.

4. The active support of the USSR's interaction with international economic organizations, which could help to integrate the Soviet Union into the world economy.

5. The main objective is the conclusion of a peace treaty between the two countries on the basis of the principle of law and justice underscored by Russia.

Kiichi Miyazawa does not neglect his personal life. He likes to play golf. He takes a half-hour walk in Yoyogi

Park in the capital each morning. He met his wife in 1939 on a ship carrying Japanese students to the United States for a meeting with their American counterparts. The happy marriage produced a son and daughter. They are already adults. His daughter, incidentally, is married to an American diplomat.

Therefore, a strong and experienced politician has taken his place on the Japanese political stage. This could increase the country's political influence in the world. It will probably give rise to changes in Soviet-Japanese relations. Time will tell how significant these changes will be.

### Article Assesses Reaction to U.S. Peace Talk Invitation

92UF0266A Moscow IZVESTIYA in Russian 25 Nov 91  
Union Edition p 3

[Report drafted by A. Blinov in Washington and V. Lashkul in Moscow: "Invitation to Washington Addressed to All Participants in the Madrid Conference"]

[Text] According to a statement by M. Tutwiler, the official spokesperson for the U.S. Department of State, the American Administration has suggested that the second stage of the peace conference on the Middle East be initiated in Washington on 4 December. The Palestinians, Israel, Egypt, Lebanon, Syria, Jordan, and the Soviet Union were informed of this new U.S. initiative, as was the co-chairman of the Madrid Middle East Peace Conference. "After three weeks of expecting that the direct participants in the talks would agree on the location of the talks, we suggested that they meet in the American capital," M. Tutwiler pointed out. She emphasized that "it is important to give the various parties the opportunity to settle all contradictions and, something which is even more important, to resume direct talks."

According to the American press, the new round in the Arab-Israeli dialogue will be somewhat different compared to what took place in Madrid three weeks ago. It is presumed that the talks in the American capital will take place not on the level of the heads of state and governments but among diplomats of countries which participated in the national peace conference. Furthermore, the organizers of the Washington meeting hope that they will be able to lower the excitement and the pressure caused by the Arab-Israeli talks, exacerbated by the press. This will be achieved by significantly reducing the presence of the press at the talks.

The first person the American leaders were able directly to discuss their invitation on pursuing the bilateral talks in Washington with was Yitzhak Shamir, the Israeli prime minister. The head of the Israeli government, who was visiting the United States, was received at the White House. Approached by journalists following his talk with President George Bush, Shamir avoided answering the question of whether he had accepted the invitation to send a delegation to the American capital. According to him, the answer will be provided only after consultation with the members of the Israeli cabinet. However, it has become known that the Israeli prime minister had assured the head of the American Administration that he had empowered his country's future delegation "to discuss all vitally important problems including that of territory."

It is noteworthy that, while in the United States, Shamir insisted, nonetheless, that direct talks between Israel and its Arab partners take place in the Middle East: desirably they should alternate between Israel and its neighbors. He claimed that this could contribute to the process of recognizing the existence of Israel by the Arab world.

This approach, as we know, is not shared by the Arabs who would like, above all, for Tel Aviv, to end the occupation of Arab lands and ensure the just resolution of the Palestinian problem.

It is worth noting that the Israeli prime minister has emphatically and firmly spoken about a Middle Eastern settlement. Thus, speaking in Baltimore, at a conference of the federation of major Jewish organizations in the United States, he spoke against the "division" of the territory west of the Jordan and the creation of a Palestinian state, also stating that the future of Jerusalem "cannot be a matter of discussion."

Even at conferences which actively support Israel, the Jewish organizations in the United States have not supported such a view. According to a survey conducted among the participants in the conference, the majority of them support the principle of "peace in exchange for territory" and favored "freezing" the building of Israeli settlements in occupied territories.

The uncompromising nature of Shamir's views is the main reason for the fact that he left Washington without obtaining the guarantee that the Bush Administration would be able fully to meet Israel's request for a \$10 billion loan guarantee for housing construction for immigrants entering that country essentially from the USSR.

As to the Arab answers to the American proposals of continuing the Arab-Israeli dialogue in the U.S. capital, the first to accept was Jordan. The other participants in the talks are still asking for additional explanations. In particular, what disturbs the Palestinians is the fact that members of the PLO are denied the right to enter the United States, which could "cut off" from the Jordanian-Palestinian delegation its advisers who represent that organization.

The major difficulties which appeared in choosing a place and date for the new talks clearly reflect the difficulty of the process of a Middle Eastern settlement itself. At the same time, however, they confirm the need to energize this process through world public opinion, above all through the efforts of the co-chairmen of the Madrid Conference, the USSR and the United States.

### Experts Hold Roundtable Discussion on Middle East Conference

92UF0290A Moscow PRAVDA in Russian 30 Nov 91  
p 4

[Article by S. Filatov: "A Fire Which Must Be Extinguished"]

[Text] The Arab Culture and Business Club organized another roundtable of experts in Moscow to analyze the situation with regard to the international peace conference on the Middle East.

Many different opinions were expressed by the Soviet scholars of Eastern affairs, the diplomats and ambassadors from Arab countries, and the journalists who gathered at the meeting, but the underlying theme of each was the same—that the Madrid conference is an event representing a major advance in Middle East settlement.

It is true that after making this statement, virtually all of the speakers expressed concern about the future of the peace process. There is cause for concern. Israel and the Arabs, as one speaker put it, have become involved in what promises to be a long and difficult diplomatic struggle. The anticipated bilateral talks will probably be more difficult for the Arabs than the first multilateral phase because they will take place behind closed doors, and under these conditions they will lose the sense of mutual assistance that helped them in the beginning. This is all the more important in view of the fact that Israel's behavior is still far from constructive: It is objecting to the continuation of the talks in Washington, insisting that they should be moved to the Middle East. The Arabs have the difficult task of defending their own rights while remaining flexible enough to avoid providing the slightest pretext for the breakdown of the talks.

If they do break down, it will be impossible, according to the experts, to convene another conference. The countdown for a new Arab-Israeli war will start. There are certain factors which could be influential in saving the talks, such as Europe's interest in Middle East settlement—after all, the conflict could erupt next door to the European home; the role of the United Nations, whose secretary general, Egyptian Butrus B. Ghali, is from that part of the world; and the support of world public opinion, which will guide the actions of politicians.

Roundtable participants had different opinions of the role Washington and Moscow played in the preparations for the conference and the organization of its first phase. Some said that the conference could not have been convened without the USSR, but the former Soviet Union itself is now too weak to have any decisive effect on the results of the Arab-Israeli dialogue. In general, the effectiveness of the Soviet presence in Madrid and the activities of the minister of foreign affairs himself were not given a high rating.

As for the Americans, some speakers wondered why they were suddenly trying to make peace. Arab representatives questioned the sincerity of the United States' intentions to promote peace in the Middle East. In this case, I cannot agree with this point of view, and I will tell you why.

An assessment of international prospects from the geopolitical standpoint indicates that the dangerous instability within the territory of the former Soviet Union is now of primary significance. The proliferation of nuclear weapons and other weapons among the new states which were recently our republics, the border disputes which could turn into protracted conflicts, and the inter-ethnic

clashes fueled by the severe economic crisis are already matters of primary concern to the United States.

The destabilization of the Union is having a direct effect on U.S. foreign policy. Before they can respond effectively to these new seats of tension in the world, the Americans will have to extricate themselves from other conflicts, especially the one in the Middle East. Therefore, in my opinion, American policy on this matter is a true reflection of the national interests of the United States. It is easier to put out the fires of crises one at a time.

The experts did not hazard any guesses as to whether a new round of peace talks would take place in December, but they did express this hope. Israel's procrastination in coming to Washington is still a matter of diplomatic maneuvering and has not reached the point at which it could subvert the settlement process. Roundtable participants spoke of the intractable behavior of the Israeli leaders in unequivocal terms. This obstacle is obvious to everyone. They stressed that Shamir's ideology of confrontation is nearsighted. It could ultimately isolate Israel from everyone else, including the United States.

Ambassador N. 'Amr from the State of Palestine summed up the situation in precise terms when he said that there are three elements that could secure the success of the Middle East conference—realistic negotiation, concrete decisions, and stability in the region. Securing this combination of factors will not be easy, but it will be essential.

#### **U.S. Seeks To Halt South Asia Nuclear Arms**

*924P0034B Moscow IZVESTIYA in Russian 14 Nov 91  
Union Edition p 5*

[Article by IZVESTIYA correspondent N. Paklin: "Who Is Harboring the Atom Bomb"]

[Text] Delhi—American diplomacy intends to prevent the transformation of densely populated South Asia into a 'nuclear powder keg.' The United States has decided to send Under Secretary of State R. Bartholomew to India and Pakistan.

The American position is clear: The United States will "pressure" India for the sake of nuclear disarmament. And we? We, naturally, also favor the Nuclear Nonproliferation Treaty that was drawn up with our direct participation and signed in 1970. Like the American position, our position of principle is to have as many countries as possible subscribe to that document, which has become a serious obstacle on the path of the spread of nuclear weapons throughout the world. But... As always, our diplomatic principle is selective. For a long time we sharply criticized a number of countries for their refusal to subscribe to the treaty. But this is the significant thing. All those countries—South Africa, Israel, Pakistan—are states with a pro-Western orientation. Our diplomacy said not a word about India, which stubbornly refuses to sign this document. Why? We are



friendly toward India. Until recently India's negative position was also passed over in silence by the Soviet press. It was considered that if we openly said that we were thinking about India's refusal to subscribe to the treaty we would thus offend our Asian ally and do "irreparable harm" to Soviet-Indian relations. Abusing the allies of the United States was another matter. We were very good at that.

It must be acknowledged, however, that the United States has not employed a dual approach to this important issue. It has spoken the truth without constraint to its own strategic partner in Asia—Pakistan—which, like India, has for many years been working on an extensive nuclear program reliably hidden from the eyes of the world community. Things have come to a pass such that in October of last year the President of the United States, after receiving no convincing proof that Pakistan does not have nuclear weapons, issued instructions to halt economic and military aid. It is thought that this decision has prompted Islamabad to demonstrate its own enthusiasm for nuclear disarmament and put forward a new plan to transform South Asia into a nuclear-free zone. In the summer of this year the president of Pakistan, Nawaz Sharif, proposed the convening of an international conference to be attended by Pakistan, India, the United States, the USSR, and China to discuss "nuclear weapons in the region in a spirit of equality and in an unbiased way."

The main factor in the Pakistani plan is for Pakistan and India to sign the Nuclear Nonproliferation Treaty simultaneously. We recall that the treaty signatories have assumed an obligation not to produce or acquire nuclear weapons. However, the treaty does not prohibit work on the use of nuclear energy for peaceful purposes. And in order to ensure that there would be no doubts about compliance with the conditions of the treaty, the countries signing it agree to open the doors of their nuclear laboratories and research centers to inspection by the International Atomic Energy Agency (IAEA).

Right from the start India has assumed a sharply negative position with respect to the Nuclear Nonproliferation Treaty. Governments and ruling parties in the country have changed but the attitude toward this document remains the same. This was confirmed by the country's new head of state, Narasimha Rao. He recently assured the deputies of the Indian parliament that like previous ones, his government "does not intend to sign the Nuclear Nonproliferation Treaty." The opinion of the overwhelming majority of the world's countries that have signed the treaty notwithstanding, India is suggesting that it is "discriminatory in nature" because it does not guarantee a balance between the interests of nuclear and nonnuclear powers. Deciphering this somewhat vague formulation, Indian External Affairs Minister M. Solanki has noted that "the treaty legitimizes the possession of nuclear weapons by the nuclear powers."

In fact it came about historically that during the early years the five powers that are the permanent members of

the UN Security Council each separately developed its own nuclear weapons. In a certain sense of the word they are monopolists. But surely it would not be better, would it, to break that monopoly and allow nuclear weapons to proliferate throughout the world, permitting them at the same time to fall into the hands of political adventurers? There are grounds for suggesting that India does not think in this way. In that case, only one explanation remains for its negative attitude toward the nonproliferation of nuclear weapons, namely, its intention to develop its own nuclear weapons. "You have nuclear weapons, and we want them." This was told to me with passion by one eminent Indian journalist. However, the possibility cannot be excluded that India already possesses nuclear weapons or is ready to assemble the components of them. As long ago as May 1974 India produced a nuclear explosion in the desert. The government announced that it was a test for peaceful purposes. However, Indian newspapers published on the day after the explosion informed the world, not without pride, that India "has successfully exploded its own atom bomb. and has joined the 'nuclear club' as the sixth member."

Many political figures in India are openly calling for the development of an "Indian atom bomb." They explain their demand by the fact that Pakistan, so they say, already has nuclear weapons. Referring to "reliable intelligence sources" they even state the number of nuclear bombs that Pakistan has detonated—from six to 10. Pakistan is offering assurances that its nuclear program is a peaceful one, but India, it says, does possess atom bombs. It is difficult to say how reliable any of this information is. But one thing is striking, namely, that on the pages of serious Indian journals, retired generals are already describing scenarios for future Indian-Pakistani clashes using nuclear weapons. Some American senators also do not exclude this possibility. An ominous outlook, to say the least.

The transition of the two leading powers—the Soviet Union and the United States—from a nuclear arms race to reductions in nuclear weapons has created favorable conditions for new peace initiatives. The decision by France and China, which possess nuclear weapons, to subscribe to the treaty is of exceptional importance.

Pakistan's proposal to convene a conference of the five states for the purpose of transforming South Asia into a nuclear-free zone was met with a favorable response in Moscow and Washington. Then China supported the initiative. In an interview with the Pakistani information agency in late October, PRC Chairman Yang Shangkun stated this: "We believe that the proposal on a regional solution to the problem of nuclear proliferation is of great importance for the creation of a nuclear-free zone in South Asia and for maintaining peace and stability in this region." But what of India, without whose participation the conference cannot be convened?

For a long time India kept its silence. It has just been broken. The Indian representative in the political committee of the United Nations voted against Pakistan's proposal, whose co-sponsor was Bangladesh, to declare South Asia a nuclear-free zone. The governments of the diminutive island state of Mauritius and the equally tiny mountain kingdom of Bhutan voted with India against the proposal. The representatives of 104 countries supported the resolution. The voting clearly demonstrated that India's negative position is not met with understanding by the overwhelming majority of the world's countries. And among the Indian public...

"India should assume a more construction position that heretofore with respect to the proposal by Nawaz Sharif made to the United States, the USSR, and China that they should join India and Pakistan to address together the problem of nonproliferation of nuclear weapons in South Asia," writes the TIMES OF INDIA.

It is becoming increasingly difficult for India to reject what is being called the threshold of a "regional approach" to the banning of nuclear weapons. But its calls to resolve the nuclear problem once and for all on a universal scale is perceived in the world as a utopia. Therefore, in Delhi they are working on intermediate scenarios so that, without closing the door on itself to acquire nuclear weapons it can save face in the eyes of the world community. One such scenario it is proposing is to agree to the conclusion of a treaty with Pakistan on non-first-use of nuclear weapons. Of course, this kind of agreement would be significant, but it does not eliminate the possibility of the emergence of nuclear weapons in both India and Pakistan. But by returning to a nuclear arms race the two countries are risking a heating up of their traditional tense relations and transforming the South Asian subcontinent into a "nuclear powder keg," not to mention the financial and economic burdens that a nuclear race will ineluctably entail.

#### **Threat of CW Use in Gulf War Pondered**

924P0034A Moscow IZVESTIYA in Russian 12 Nov 91  
Union Edition p 4

[Article by M. Zubko: "Why Did Iraq Not Use Chemical Weapons?"]

[Text] Stockholm—For the millions of people throughout the world who tensely followed the combat operations in the Persian Gulf zone, the question "Why did Baghdad not use chemical weapons?" has remained unanswered. For the fear was very great that it would!

Finally there is an answer: The fact is that not only Iraq had a major chemical weapons capacity but they were also available to the multinational armed forces in the anti-Iraq coalition. Saddam Husayn was well aware of that! And it was this that restrained him from unleashing a chemical war.

This sensational news was revealed to Swedish journalists by reserve Major Juhan Persson, who was attached to a Swedish field hospital during the fighting.

Juhan Persson said that he was playing the role of communications officer and therefore had constant contact with the armed forces of the various countries in the coalition. In particular, the major had access to the allies' top command organ—the Committee of the Chiefs of Staff.

According to Juhan Persson, that committee contained a special section that was in charge both of making preparations to repel strikes made with chemical, nuclear, and bacteriological weapons, and also the possible use of those same weapons by the allies. And the Swedish major also had contacts with this committee.

The major was unable to reveal that he had himself seen the chemical weapons stores, and was unable to say whether they were held in storage facilities or deployed with the fire forces. But he was aware of instructions on the use of these weapons, a document running to about 200 pages. The instructions set forth in detail how ground or air force units should use them.

"I held those instructions in my hands," the communications officer claimed. "It was a real document, not some kind of paper invention. Chemical weapons were to be used if necessary as a response to chemical attack by Iraq."

The command of the multinational armed forces believed, according to Juhan Persson, that it had a greater stock of toxic agents than did Baghdad.

The allied forces command, however, had suggested that it had few such weapons at its disposal. It was important that Saddam Husayn and his generals knew that the multinational forces also had a large arsenal in the zone of combat actions. Using various channels, U.S. and British intelligence made sure that this information got to Baghdad. Juhan Persson recalled this.

"'Stay calm,' they told me. 'Saddam Husayn knows our capability...'"

The Swedish journalists raised this question: So how was it that the powerful press of the United States, Great Britain, France, and the other states following what was going on in the zone of combat actions against Iraq and around it did not learn about this? Juhan Persson says that this was because of the Committee of the Chiefs of Staff, which had laid a "smoke screen" in front of the journalists by making active use of "skillful propaganda officers."

"Correspondents asked the major this: Do you not think that you have acted wrongly in revealing this, for Sweden also took part in the actions of the coalition (by sending a field hospital—author's note)?

"I do not believe that it was unusual that the multinational coalition forces would have chemical weapons at their disposal," the Swedish officer responded.

\* \* \*

Another report on the same subject has been published in the Berlin newspaper TAGEZEITUNG. On the eve of the combat actions the American command ordered

medical injections to provide immunity against the effects of chemical and biological toxic agents for all those who would be involved in operations in the Persian Gulf.

The generals remained silent on just one thing, namely, that the vaccine had at that time not yet been through the stage of the necessary laboratory tests.

**Angola Viewed as Failed 'Showcase of Socialism'**

92UF0252A *Moscow PRAVDA in Russian* 18 Nov 91  
p 5

[Article by Special Correspondent S. Cheremin: "In Our Own Image and Likeness"]

[Text] Luanda and Moscow—From the hill where the small buildings of the Soviet military mission are located in Luanda, there is a charming view of the Atlantic Ocean. Only the gigantic, upward-rising stone memorial looks a little absurd against the azure background. The turret cranes are motionless; trucks form no chain across the grandiose construction site. Only the bright glow of floodlights indicates that there still is life there. It is the mausoleum of Agostino Neto, the founder of the ruling MPLA [Popular Movement for the Liberation of Angola]-Labor Party, with an area for parades and an underground gallery of deluxe bunkers for the members of the leadership in the event of emergency circumstances. The money invested in building the memorial could have financed the construction of a new residential development. But evidently a resting place for the leader was precisely what a country ravaged by many years of civil war needed.

In the history of Angola colonialism and the people's struggle for liberation; great powers' rivalry for influence in the region, and foreign intervention; party conflicts and intertribal feuds are monstrously interwoven. The desired "showcase of socialism" in Africa now resembles a dirty glass blackened by the smoke of gunpowder. In Luanda we met with politicians, diplomats, military personnel, journalists and ordinary residents of the capital. They all understand that it is impossible to live any longer this way. But how hard it is to get out of a rut that has been formed for decades.

The USSR's diplomatic relations with Angola were established in 1975. However, from the early 1960s we maintained contacts with the MPLA movement, which subsequently became a political party. According to the former "kinship qualification," it was considered a fraternal party. Then the MPLA was fighting with the Portuguese colonialists, and we could not help but become friends. From the very outset our relations acquired the nature of relations between parties, with an emphasis on the ideological commonality of goals. With the MPLA's assumption of power, ties between it and the CPSU became interstate relations. Commercial and economic cooperation, in such a situation, became merely a tool for accomplishing ideological objectives, which could not be accomplished without resorting to military force and suppressing dissidence.

Did "competent Soviet persons" realize that the rapid construction of the radiant future in Angola was a myth? I think they realized it but, as was the custom, resorted to self-deception. The information sent to Moscow was what Moscow wanted to see. The very policy of building socialism in a country where no conditions whatsoever existed for doing so ruled out the possibility of speaking

the truth. Even if people in the Foreign Ministry had wanted to change something or correct something in order to preserve their professional honor, an immediate outcry would have been made from the Central Committee. The score for foreign policy was written at Staraya Square, and the only thing left to do was wave the director's wand and enjoy the joyful chords: fruitful cooperation, complete mutual understanding, grand prospects. Contrary to Lenin's own postulates, we built a political skeleton of relations and afterwards tried to tape the "economic meat" to it. Only it would not stick.

All it took was for some Third World country to proclaim a policy of socialism, and we would immediately sign on as a patron. Add to that the personal factor—one leader got to like another over a drink at an official reception during a "vacation in the USSR"; they would squeeze one another in embraces, kiss and agree on "basic guidelines"; and millions would start to flow overseas out of Russian coffers. Organizations and structures would spring up whose purpose was to substantiate and our financial, military and economic aid and maintain it at a constant level. And it would continue to be supplied out of inertia even if the situation changed drastically—the bureaucratic mechanism had been too well set up. And you must also take people's psychology into account: how could they fail to glad for the maintenance of contacts? After all, any curtailment of them threatened them with being returned to the homeland! And back in the homeland people were suffocating in waiting lines, and their wages were barely enough to make ends meet. And I have a family, children. The instinct of self-preservation. In human terms one can understand it, yet the state that occupies that remote motherland is not a bottomless moneybag, either.

Can one speak of the errors of Soviet foreign policy solely with respect to Angola? I dare say not. Is there any need to engage in self-flagellation, placing the entire blame for the existing situation on the USSR? No. The Angolan people are equally indebted for their sufferings to the United States, which sustained the opposition, and South Africa, which repeatedly launched aggression, and several neighboring states. However, in my view our unforgivable mistake was that we attempted to build state bureaucratic socialism in our own likeness and image on African soil.

Today only fragments remain of the "showcase of socialism" on the Dark Continent. Clashes with the colonialists, a senseless civil war, and the excessive burden of military expenditures have resulted in the country's ruin. As a legacy, future generations will receive only a bunch of clay huts lacking the basic conveniences. The influx into the cities of refugees from rural regions in search of a better lot has not, to put it mildly, contributed to prosperity. Even in the center of the capital one can often see "Homo sapiens" absolutely shamelessly answering the call of nature in front of passersby. Do you remember what Bulgakov says in "Sobachye serdtse" [Heart of a Dog] about ruin? How all this resembles us as we were in the past!

Stinking garbage dumps have grown up outside some multistory buildings: garbage is simply thrown the window. Curly-haired kids in search of something to eat root around in the garbage piles and play there, too, filled with resonant laughter. When I wanted to photograph this distressing episode from local life, a home-grown activist and guardian of morals seemed to spring up out of the ground. Threatening to take away my camera and break the window glass in our car, he chased after us for a long time on a motorcycle. It's too bad that the efforts of such fighters for morality go not for cleaning up the garbage but for preventing it from being recorded on film.

And how are the Angolans managing under these conditions? Here is the fate of an ordinary soldier. Why a soldier? Because practically all men have been through the crucible of war. Clemantino Calungulung is 32 years old, a former peasant who seven years ago exchanged his hoe for a Kalashnikov assault rifle. Now he receives 3,000 kwanza (the monetary unit) a month. Like many Angolans, he has two families. Three children. Is it enough to live on? Clemantino smiles: "A kilogram of rice in the market costs about 2,000, and vegetable oil—1,500. So judge for yourself." The family members have to get by with common speculation. Part of their ration is immediately resold in what we would call the flea market, the number of which in Luanda has reached 26. The Angolan market is a whole world, worthy of a separate story. For example, "Kolarobka," which in translation means "shut your mouth." And indeed, the assortment is incredibly rich, from machine guns to children's socks. If you have read Gilyarovskiy about Khitrovka in Moscow, in spirit it is approximately the same thing, but with an African flavor.

The best selling goods in the market are beer and mineral water. If you buy a case in a hard-currency store and sell it in the flea market, you make a profit of up to 1,000 percent. Incidentally, it is recommended that you wash and brush your teeth with mineral water, or at least beer—there is infection at every step. And the first to suffer are the children. As soon as a white man appears on the street he is surrounded by a flock of chocolate-colored boys: "Chop-chop!" Give us something to eat. Ruin.

Peace. How it has been awaited in Angola! The people are tired of war, poverty, crime and theft. According to experts' figures, in the capital's seaport alone up to one-third of the cargo is carried off. The collapse of the economy is aggravated by the corruption of the over-inflated state apparatus. Angolans themselves say bitterly that the country is being destroyed by the spirit of living for the short term, by the consumeristic attitude toward its resources. Enterprises are in a state of slump. The only thing that sustains the budget is the petroleum and diamond industries. They account for more than 75 percent of the gross internal product and 95 percent of hard-currency revenues. The rest of the branches work sporadically because of a lack of raw materials and spare parts for equipment, and insufficient electric power and

water. One cannot even speak of production management and discipline. Familiar features, aren't they?

Angola's foreign debt, according to Western economists' estimates, has reached \$11.5 billion, of which \$4.5 billion is owed to us. Today the question of repaying it occupies a key place in interstate relations. This is being required by the shift in emphasis in the USSR's foreign policy and its own impoverished situation. However, it hardly makes any sense to demand the immediate repayment of debts, stamping our feet and looking angry. Angola's government is barely coping with paying the interest on loans, and it does not have hard currency even for the most urgent needs. Therefore, Luanda is proposing the following option for solving the problem: forgive the military debts, and grant a 100-year postponement for the civilian debts.

Such an approach is hardly to our liking, although it was our politicians who proposed this formula. Thus, in speaking at the UN General Assembly session in 1988, USSR President M. S. Gorbachev called for forgiving the less developed countries' debts. Such a hasty statement was immediately seized on by many, counting themselves among the poorest and renouncing their obligations.

However, from the ethical standpoint it is inappropriate for us to recall the military debts. For more than 15 years we, deliberately or involuntarily, helped sustain the fire of a fratricidal war. Who knows? Part of those 300,000 killed and 100,000 crippled may be partly on our conscience. Moreover, for arms deliveries Angola paid a 15-percent advance in hard currency, which in specialists' opinion fully covers the ruble outlays for the production of equipment (taking the real ruble-dollar exchange rate into account. And let's be frank—in some cases it was by no means the best examples of military hardware that we shipped abroad.

But what should be done with the debt for civilian deliveries? Some financial specialists propose selling the debts for 10 percent of their face value, on the theory that something is better than nothing. And after that? To leave Angola entirely, writing it off under the category "losses from the era of socialism"? But that would be another extreme.

Of course, some joint projects collapsed with a crash, especially in agriculture. In particular, the plans for organizing large state cotton farms or building huge hydroelectric power stations and refrigerated storehouses for meat in the south of the country proved a fiasco. However, that does not mean that the picture of cooperation should be painted solely in black. One can boldly speak of mutual advantage in fishing—4 million tons of fish has been shipped to the Soviet Union. We have received coffee and a number of other goods from Angola. The intensiveness of relations is also indicated by the number of civilian specialists—several tens of thousands. Doctors and engineers, oil-field workers and geologists, bridge-building specialists and teachers are



working here. As compensation for these personnel alone, the USSR currently receives \$10 million net profit. To cancel out everything, including what is positive, as present daredevil politicians are proposing, would mean once again becoming a victim of ephemeral conditions.

Unquestionably, changes are inevitable. But we ought to maintain our presence in Angola. Not the ambitions of a state claiming the role of superpower, but an economic presence oriented toward short-term and medium-term contracts and the development of production capacity. One would like to believe that the mausoleum of Agostino Neto will become the last joint monument to "mutually advantageous cooperation."

Some people reading this essay may say: "How gloomy it all is!" Of course, it would be more familiar to draw some sort of rosy panorama of nothing but victories and accomplishments. But I catch myself thinking: "How much has been written about that." So let's finally be sincere and stop trying to put a good face on a bad situation. After all, only honesty and openness give rise to trust and friendship.

I deliberately did not touch on political processes in Angola, did not write about how the Lisbon accords are being implemented, and did not mention UNITA [National Union for the Total Independence of Angola]. In the Soviet press that abbreviation used to invariably be accompanied by the epithet "terrorist." In September a group of journalists from the USSR, with the help of the [International Foundation for the Support of Freedom], managed to visit UNITA's holy of holies, its headquarters in Jamba. But the next essay will be about that.

### **Sanctions Against South Africa Examined; Economic Ties Urged**

92UF0289A Moscow PRAVDA in Russian 3 Dec 91 p 5

[Article by I. Tarutin, personal correspondent (Pretoria-Harare): "We Who Stand By the Fence"]

[Text] *A journalist colleague told me about something that happened to him. He was unexpectedly contacted in Pretoria by a representative of one of our well-known commercial firms who had just arrived there and who wanted to meet him soon. Knowing that any Soviet person has trouble getting his bearings when he comes to South Africa for the first time, my colleague dropped what he was doing and went to the Soviet businessman's hotel right away. Imagine his surprise when the man asked him to serve as his interpreter at an upcoming conference, admitting with some embarrassment that he could not speak English or any other foreign language. Oddly enough, he could not find anyone locally who spoke Russian.*

This story, whether you call it funny or sad, is a regrettable indication of the nature of our business contacts with the Republic of South Africa. For us, this country is

an absolutely unexplored territory. Therefore, it is not surprising that people there are keeping a close watch on the first ambassadors from mysterious Russia.

We were separated by a solid wall for more than three decades. I was once reminded of a phrase from a satirical sketch: "We who stand here, by the fence." When I was working in neighboring Zimbabwe, this is exactly how I felt. There it was, South Africa, close enough to touch, but I could not go there. Furthermore, our comrades from the International Department of the Central Committee were even more vigilant in enforcing the ban than the South African side. When Pretoria was ready to make contact, they strictly forbade any attempts to get over the fence, particularly the attempts of journalists. This is why we had to keep standing in front of it.

When I finally got into South Africa, I was shocked to learn that the barrier of its international isolation was quite relative. I marveled at the sight of a long row of airliners bearing the logos of the main world companies when I arrived at Johannesburg Airport. Arrivals and departures of foreign planes were announced literally every half-hour, and the airport was crowded with foreign passengers. This did not agree at all with my conception of the apartheid regime as an international outcast.

Incidentally, the main capitalist powers maintained the full line of diplomatic relations with this regime the whole time. Economic ties were not severed, despite some restrictions. Hundreds of well-known Western firms always operated in the country. In the automotive industry alone, there were such indicative names as Ford, Mercedes, Toyota, Nissan, and Volkswagen.

And it would have been all right if the West had been the only collaborator, for which we once branded it racism's accomplice. It turned out, however, that South Africa had a close economic relationship all those years with neighboring African states, the same states we still call the "front-line states"—i.e., states fighting with us against apartheid.

I remember when I first went to Harare and asked about the long line of people I always saw on one of the central streets. I learned that the winding human snake began forming early in the morning each day in front of the South African Trade Mission and consisted of people wanting a South African visa. In the last year approximately 250,000 Zimbabweans crossed the border, and most of them were black.

There are many of these seemingly inexplicable paradoxes in the southern African states' coexistence with Pretoria. It seems to have transpired on two separate planes. On one there were clashes and confrontation, and on the other there were the commercial ties which were maintained even during periods of acute conflict.

President Robert Mugabe of Zimbabwe once chided a journalist who asked him a question about this ticklish subject at a meeting with foreign correspondents:

"We," he said, "are dependent on South Africa. Our freight is shipped on its railroads and through its ports. It buys Zimbabwean commodities, such as textiles, and supplies us with finished manufactured goods and spare parts. Our whole export-import mechanism has always worked in this way. The breakdown of this mechanism would cause our whole infrastructure to collapse. We are not suicidal."

This is the reality, and there is no way of escaping it. It was not only neighboring countries that maintained commercial ties with South Africa, however, but also the African states located at some distance from South Africa and having no apparent historical attachment to it.

In the South African Ministry of Foreign Affairs I was told that Pretoria has commercial contacts of some type with virtually all of Africa. South African exports to other African countries, according to figures in THE STAR, increased by 40 percent last year and another 20 percent this year, reaching 3.5 billion dollars. Furthermore, this is regarded as a conservative estimate because many goods are exported covertly, through third parties.

Many do not want to continue acting covertly, however. Such countries as Kenya, Zaire, Ivory Coast, Gabon, and several others have demanded the cancellation of the boycott against Pretoria. They feel that it became meaningless after the United States, the EEC, and Japan announced that they would begin "lifting" the sanctions against South Africa in response to President F. de Klerk's major reforms. What is more, even the East European countries have been fairly quick to agree to economic convergence with South Africa.

We are the only stubborn hold-outs.

It is true that the ice that impeded our relations has begun to thaw in a few areas. Journalists and scientists have begun visiting South Africa, arrangements are being made for cultural exchanges and, finally, there are political contacts. South African Foreign Minister R. Botha visited our country recently—the first such visit in decades. A section representing South African interests was opened in the Austrian Embassy in Moscow last summer. President F. de Klerk also plans to come to our country. There have been no serious changes, however, in the economic sphere.

References to the UN resolution on sanctions against South Africa have served as our side's explanation, but the United Nations imposed a compulsory embargo only on cooperation in the military and nuclear spheres. The other decisions were only recommendations—i.e., each country could decide which restrictions to impose. Furthermore, in contrast to, for instance, the United States and Western Europe, where there were related congressional and parliamentary resolutions, our country did not pass a single law on this matter. Therefore, strictly speaking, there is nothing to repeal.

It seems to me, however, that we are influenced in all of this by the position of the African National Congress, an organization with which we had a close relationship for many years. It still categorically opposes any abatement of Pretoria's isolation.

I do not think we should give in to the current advice to ignore the ANC completely. It is certain to be represented in any future South African government. Why should we nullify our earlier good relationship? This would be nearsighted, to say the least. The fact that our approaches do not necessarily have to coincide in every respect is a different matter. Besides, the president of the congress himself, Nelson Mandela, advised a flexible approach to the issue of sanctions at a recent conference in Durban.

This is how we should act, especially since the immediate start of vigorous trade is highly improbable. It is highly doubtful that a flow of South African goods, food, and medicine will suddenly rush into our country. And it is not that South Africa is incapable of sending them. It could do this, but only for hard currency, which is in extremely short supply. In general, we have to remember that any purchases from a country as distant as South Africa might cost more to transport than they are worth.

Some areas of cooperation, however, are within our reach. These are, for instance, the coordination of gold sales, so that we do not drive prices down by putting large quantities of gold on the market at the same time. In most cases, however, we will have to conduct a careful search for partners, and possibly in the most unexpected fields—for example, the use of Soviet boosters to launch South African satellites.

Interest in this cooperation and ideas about it do exist on the South African side. Many conversations with leading businessmen have suggested this. Their initial contacts with Soviet entrepreneurs, however, aroused some surprise and apprehension.

Here is a specific example. A delegation from the USSR Chamber of Commerce and Industry recently visited South Africa. Members of the delegation described the results of the trip in extremely optimistic tones in our press. I had to hear the reaction of the other side, which was quite reserved. Deputy Director Ron Haywood of the South African Chamber of Business said that our delegation, in his opinion, was poorly prepared and did not even have a concrete list of proposals. In general, he said, "when we welcome guests from your country, we can assume that they did not come to sign contracts, but simply to take a look at South Africa." I was diplomatic and said nothing in response. What could I have said?

Visitors to South Africa from our country are certain to increase, especially now that the republics are entering the foreign policy arena autonomously. There is the risk that dilettantism could spoil our relations, especially since we have to act with a view to the long range and must not expect any quick and easy dividends.

When South Africa has solved its political problems and has emerged completely from its earlier isolation, it will have every chance of becoming the superpower of the continent. It has tremendous potential. If we cannot find the proper points of reference for cooperation today and base it on a solid foundation of mutual advantage, if we discredit ourselves as partners by not taking the matter seriously, we will have much greater difficulty later.

Yes, the sanctions against South Africa still exist, although I think their complete rescission is in sight. They cannot interfere in any way with preparatory work and preliminary investigations. After all, we are starting from zero. The economy does not necessarily have to wait for diplomats to act, and the experience of Africans attests to this. We have stood by the fence long enough.

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